



Neo-Brokers

FINAL REPORT

The Board of the
International Organization of Securities Commissions

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Executive Summary

Neo-brokers can be defined as a sub-set of broker-dealers that provide services through a business model, which is characterised by use of engaging client interfaces, leverage of social media, and provision of online-only investment services. Neo-brokers typically provide their services with limited or no human interaction. Their service offerings are limited to only trade execution services.¹

Neo-brokers have experienced growth in recent years, driven by technological advancements, including use of Digital Engagement Practices (DEPs, such as notifications, nudges, gamification),² online imitative trading practices (such as copy trading, mirror trading and social trading)³ and social media and influencers⁴ to promote their services and products.

The digitalization of brokerage activities has given retail investors greater access to investment opportunities and financial products. Likewise, increased competition may have brought significant benefits for investors, such as improved service offerings and lower transaction costs. However, the scale and speed of this digitalization, associated with the types of products and services offered by neo-brokers may transform retail investing environment in a manner that may warrant additional regulatory consideration.

In their response to a comprehensive IOSCO survey and a public consultation, IOSCO members and commenters highlighted that while easy access to brokerage services may bring many benefits and contribute to financial inclusion, some aspects that stem from neo-brokers' business model merit specific consideration. These aspects mostly focus on the disclosure of fees

¹ The business model commonly employed by neo-brokers limits their service offerings to only trade execution services. However, neo-brokers' business model continues to evolve and some of them have started offering investment advice to their clients, as some IOSCO members have observed in their jurisdictions. Each jurisdiction may decide to apply this report's recommendations in such instances as well, based on a case-by-case assessment that, for example, considers the relevance of trade execution services compared to the other services potentially provided by neo-brokers.

² IOSCO FR/07/2025.

³ IOSCO FR/06/2025.

⁴ IOSCO FR/08/2025.

and charges to retail investors and how neo-brokers advertise themselves in relation to these fees and charges; neo-brokers' provision of ancillary services neo-brokers' non-commission related revenue generation; and the robustness of neo-brokers' IT infrastructure, given their business model is based on online services and products.

To address the issues posed by emerging neo-broker business models, this Final Report proposes a comprehensive set of recommendations as guidance for securities regulators.⁵ These proposed recommendations aim to foster a more transparent and accountable environment in which neo-brokers operate in compliance with securities regulations, including investor protection measures.

Key proposed recommendations are as follows:

- (1) **Act honestly and fairly with retail investors** – Neo-brokers should act honestly, fairly and professionally with retail investors.
- (2) **Appropriate disclosure of fees and charges to retail investors and advertising** – Consistent with their legal and regulatory framework and to the extent not already required by applicable law, IOSCO members should consider whether neo-brokers should provide retail investors with fair, clear and simple disclosure of material charges the retail investor may incur by entering the trade. Further, IOSCO members should consider whether neo-brokers should disclose all direct and indirect material costs and fees. If neo-brokers advertise themselves as “zero trading commissions brokers” or make other similar statements, IOSCO members should further consider whether neo-brokers should enhance disclosures by disclosing to retail investors whether any of the indirect material costs or fees may be borne by the retail investors. IOSCO members should also consider whether neo-brokers should not describe their trading service as a “no cost” or “zero cost” service where the use of other firms' services is required and those other firms' services are paid for by the retail investors.
- (3) **Ancillary services** – Consistent with their legal and regulatory

⁵ See, e.g., *infra* note 23. With respect to the United States, while there are broker-dealers that operate within the United States that may fit the definition of a “neo-broker” set out in this report, these broker-dealers are subject to all the federal securities laws, U.S. SEC rules, and FINRA rules the same as other U.S. registered broker-dealers.

framework, where neo-brokers offer ancillary services to core trade execution services, IOSCO members should consider whether neo-brokers should:

- (a) disclose to retail investors the material sources of revenue the firm derives from each service and, where relevant, the type of conflicts of interest arising from them. IOSCO members should also consider whether the same disclosure should be provided where one or more of the ancillary services is/are being bundled with core trade execution services and where the use of other firm services is required.
- (b) obtain retail investor consent before providing ancillary services. Consent should also be obtained where one or more of the ancillary services is/are being bundled with core trade execution services and where the use of other firm services is required.

(4) Non-commission related trading revenue such as payment for order flow (PFOF) – Consistent with their legal and regulatory framework, IOSCO members should consider whether neo-brokers should consider the impact of PFOF on the best execution of customer orders. When considering best execution of customer orders, neo-brokers could consider, consistent with the regulatory requirements within their jurisdiction, the following aspects:

- (a) price of security,
- (b) order size,
- (c) type of security,
- (d) type of order,
- (e) trading characteristics of the security,
- (f) price improvement,
- (g) speed of execution and
- (h) probability of execution.

In doing so, IOSCO members should consider whether neo-brokers should consider (a) where publicly available, the execution quality they are currently obtaining with the execution they could obtain from competing markets; (b) maintaining records of their order routing

practices and receipt of PFOF, including any modifications thereto.

Neo-brokers should consider regularly assessing whether the findings of the analysis conducted require modifications of the firms' PFOF arrangements.

- (5) **IT infrastructure** – Neo-brokers should ensure they have robust systems in place to promptly address disruptions that may prevent investors from using their platform effectively.

Chapter 1 – Introduction

1.1 IOSCO's Initiative on Retail Investor Protection

Technological developments are changing the way in which retail investors interact with financial services and products and act as a catalyst in bringing more retail investors to capital markets. The emergence of online trading platforms and mobile trading apps have made trading and stock markets more accessible to retail investors with minimal physical touch points. Similarly, there is an increasing use of these online trading platforms and mobile apps, and of social media generally, to promote the offerings of securities and other financial products.

As a result of those developments, in March 2020, the IOSCO Board established the Retail Market Conduct Task Force (RMCTF) to gain a better understanding of the evolving retail trading landscape and to develop measures regulators could consider as they seek to address retail market risks and emerging trends.⁶

IOSCO's RMCTF delivered a short-term report in December 2020 with a specific focus on retail conduct implications of COVID-19 and in March 2023 a Final Report noting the surge in self-directed trading, and more frequent offerings of higher risk (including leveraged) products made available to retail investors via technological means resulting in significant retail investor losses.

To explore trends identified in the RMCTF Final Report, the IOSCO Board established a new mechanism to coordinate activities across policy, enforcement, and investor education, bringing together representatives from key IOSCO Committees under a holistic umbrella of investor protection. This mechanism was set up in June 2023 and named the Retail Investor Coordination Group (RICG), as shown below.

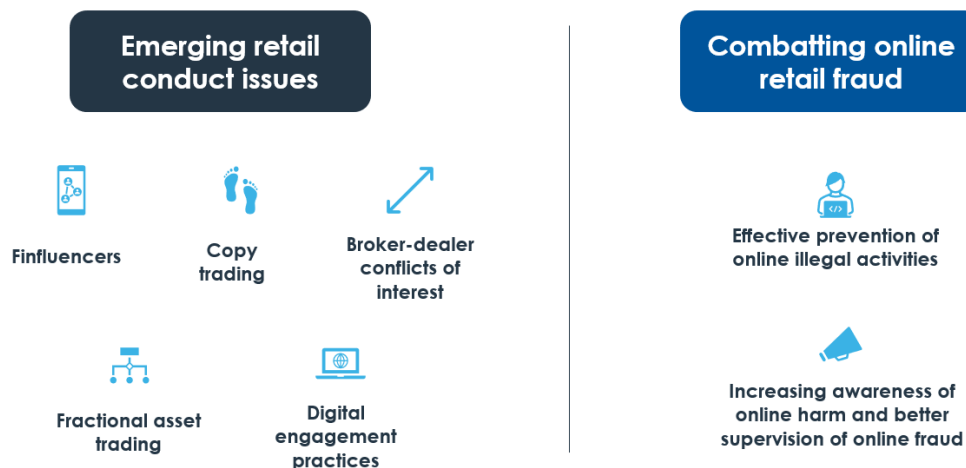
⁶ See International Organization of Securities Commissions, "Retail Market Conduct Task Force Final Report", March 2023, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD730.pdf>, page 5.



The RICG's work is focussed on identifying and mitigating emerging retail conduct issues on the one hand, with both policy and financial education sets of initiatives focused on (a) influencers; (b) copy trading; (c) broker-dealer conflicts of interest; (d) fractional asset trading; and (e) digital engagement practices (DEPs).

On the other hand, RICG's enforcement focus is devoted to the enforcement activities regulators undertake to prevent online trading harm and fraud. These cover two sub-areas: (i) international cooperation for effective prevention and investigation on online illegal activities; and (ii) increasing awareness of online trading harm and better supervision of online fraud and mis-selling.⁷ The deliverables of the two sub-areas are various enforcement tools to help regulators proactively combat online harm and fraud.

⁷ Mis-selling can be defined as a sales practice in which a financial product or service is deliberately or negligently misrepresented or a customer is misled about its suitability or appropriateness for the purpose of making a sale. Mis-selling may involve the deliberate omission of key information, the communication of misleading advice, or the sale of an unsuitable or inappropriate financial product or service based on the customer's expressed needs and preferences.



1.2 Objectives of this Final Report

This report on neo-brokers is the result of the abovementioned workstream on “Broker-dealer conflicts of interest”. For purposes of this report, the term **“neo-brokers” is intended to refer to brokers that provide services through a business model characterised by their engaging client interfaces and/or leverage of social media, providing online-only investment services⁸ and, typically, doing so with limited or no human interaction.⁹**

Neo-brokers have experienced growth in recent years, driven by a confluence of technological advancements, which have made investing more accessible, and changed investor demographics. The scale and speed of this digitization may transform retail investing in a manner that may warrant additional regulatory consideration.

As a result, **this report sets out IOSCO’s understanding of the business model developed by neo-brokers and the potential issues that may arise because of the activities of these neo-brokers. Indeed, while neo-brokers’ main activities are the same as other broker-dealers (or very similar to) and, accordingly, they are subject to the same requirements as broker-dealers, their business model presents potential risks that some jurisdictions believe support a list of recommendations provided by this Final Report as**

⁸ ESMA TRV Risk Analysis: Neo-brokers in the EU: developments, benefits and risks, July 2024.

⁹ <https://kanzlei-herfurtner.com/neo-brokers/>.

guidance.

In developing this Report, the RICG submitted a survey to IOSCO Committee 3 (the IOSCO Committee on Market Intermediaries) members, with the aim of acquiring information on the activities of neo-brokers across various jurisdictions.

The report is built upon the responses from member jurisdictions to the IOSCO survey and stakeholder engagement. Particularly, it considers responses received from stakeholders during the public consultation carried out between the 12 March 2025 and 12 May 2025. It is set out as follows: Chapter 2 delves into regulators' experience on neo-brokers' activities, including neo-brokers' business models, remuneration and potential conflicts of interest, along with those stemming from payment for order flow (PFOF) practices. Chapter 3 examines the potential risks and conflicts of interests from the activities of neo-brokers, including regulators' experience with PFOF practices of neo-brokers. Chapter 4 presents the regulators' experience with complaints, enforcement, international cooperation and cross-border aspects of neo-brokers. Finally, Chapter 5 concludes with a set of Recommendations for IOSCO members to consider regarding neo-brokers.

Chapter 2 – Neo-Brokerage Business Model

2.1 Overview of Neo-Brokers

2.1.1 Definition of Neo-Brokers

As mentioned above, for purposes of this report, the term “neo-brokers” is intended to refer to brokers¹⁰ that provide services through a business model characterised by their engaging client interfaces and/or leverage of social media, providing online-only investment services, and, typically, with limited or no human interaction. In addition, neo-brokers are limited to providing only trade execution services, while generating revenues from a variety of implicit and explicit fees and charges.¹¹

This proposed definition generally aligns with the characteristics of a neo-broker identified previously by ESMA. In a recently published paper, ESMA notes that the term ‘neo-brokers’ does not have a legal definition but suggests that the term refers to a recent wave of digital-only entrants into the financial services market that offer users real-time trading in financial instruments. ESMA further stated that neo-brokers are financial entities that enable retail investors to invest and trade in financial products online. Their selling point is immediate, user-friendly access via mobile apps and websites, often advertised as providing no or low-commission trading.¹²

¹⁰ This report does not provide a definition of ‘broker’. Each jurisdiction must therefore refer to the national or regional definition of ‘broker’.

¹¹ See footnote 1. The business model commonly employed by neo-brokers limits their service offerings to only trade execution services. However, neo-brokers’ business model continues to evolve and some of them have started offering investment advice to their clients, as some IOSCO members have observed in their jurisdictions. Each jurisdiction may decide to apply this report’s recommendations in such instances as well, based on a case-by-case assessment that, for example, considers the relevance of trade execution services compared to the other services potentially provided by neo-brokers.

¹² [ESMA50-524821-3402 TRV Article – Neo-brokers in the EU: Developments, benefits and risks \(europa.eu\)](#). Many jurisdictions responding to this survey do not make a distinction between neo-brokers and brokers.

2.1.2 Stakeholder Comments on Definition of Neo-Brokers

Comments received during the consultation of this Report generally expressed broad or partial agreement with the definition of neo-brokers. However, most commenters offered suggestions for an expanded or enhanced definition.

In particular, many commenters raised concerns that the definition may be overly narrow being limited to neo-brokers that provide only execution services. Several of the commenters suggested that the definition should allow for evolution in the business model and for additional asset classes in order to avoid being outdated. A couple of commenters provided the example that neo-brokers may offer additional services such as contracts for difference (CFDs) or crypto assets.

One commenter was of the view that online-only execution services and the absence of physical branches was not exclusive to neo-brokers. Furthermore, another commenter noted that traditional financial institutions were developing their digital offerings, such that neo-brokers should not be considered a distinct category requiring differentiated regulatory treatment. A third commenter indicated that there was no regulatory distinction between neo-brokers and other broker-dealers in their jurisdiction. In contrast, one of the commenters suggested a different treatment between neo-brokers and crypto/digital asset exchanges.

Regarding the key characteristics of neo-brokers, a couple of commenters highlighted that neo-brokers typically generate revenue through implicit costs, particularly from PFOF. One of those commenters explained that neo-brokers are unique in their combination of how investment services are accessed, monetised, and experienced by retail clients.

2.1.3 Regulators' Experience with Neo-Brokers

Survey responses from IOSCO members stated that neo-brokers give retail investors access to user-friendly mobile apps and/or internet sites that enable the timely execution of trades¹³ or facilitate investing in small amounts

¹³ A few jurisdictions, including Australia, Canada, France and Japan, indicated that investors are commonly given access to user friendly smart phone apps and/or internet sites that enable the timely execution of trades.

by offering trading in fractional shares.¹⁴ A few regulators have suggested that neo-brokers may also offer CFDs and trading in crypto assets.¹⁵ Some of the neo-brokers' apps and websites may also give investors access to other services that are marketed to:

- (1) assist the investor in making investment decisions, such as access to self-service research and analytical tools,¹⁶ market-related news, copy trading,¹⁷ and investor chat forums;¹⁸
- (2) facilitate the execution of trades, such as foreign currency conversion¹⁹ and margin lending;²⁰ or
- (3) offer investors additional services relating to the holding of investor assets at the neo-broker, such as participating in a fully paid securities lending program²¹ and the payment of interest on retail investor free credit cash balances.²²

The neo-broker landscape nevertheless varies across jurisdictions. Many jurisdictions have indicated that there are relatively few neo-brokers in operation in their jurisdiction, that neo-brokers are treated identically with other broker-dealers, or that the category of neo-broker does not exist in their jurisdictions. For example, in the United States, the U.S. SEC and FINRA generally do not distinguish neo-brokers from other broker-dealers, and as such all responses provided pertained to the overall broker-dealer industry in

¹⁴ Trading in fractional shares emerged as a common feature according to the survey responses provided by ASIC Australia, AMF France, CNMV Spain, FCA UK, KNF Poland, Nigeria SEC, SFC Hong Kong, Singapore MAS.

¹⁵ AMF France, ASIC Australia, CNMV Spain, FCA UK.

¹⁶ Access to self-serve research and analytical tools was noted as a service offered in Australia and Japan.

¹⁷ Access to copy trading services was noted as a service offered in the Netherlands and Spain.

¹⁸ Access to investor chat forums was noted as a service offered in France.

¹⁹ Foreign currency conversion was mentioned as a service offered in Australia, Canada, the Netherlands and Spain.

²⁰ Margin lending was noted as a service offered in Canada and the Netherlands.

²¹ Fully paid securities lending was mentioned as a service offered in Australia, Canada, France, and the Netherlands.

²² The payment of interest on retail investor free credit cash balances was mentioned as a service offered in Canada and the Netherlands.

the United States.²³ Further, neo-brokers do not operate in jurisdictions like the Bahamas, Saudi Arabia, and Taiwan.²⁴ Finally, some jurisdictions, such as Spain and the United Kingdom have noted that a few neo-brokers in their jurisdiction are current or former CFD brokers.

2.2 Neo-Brokers' Business Models, Services and Products Offerings

Outlined in the below sections are the typical aspects of a neo-broker's business model, namely: (i) fee structure, (ii) revenue generation/remuneration, (iii) target audience, and (iv) service delivery.

Commenters to the consultation of this Report generally agreed with the typical aspects of neo-brokers' business model. However, commenters highlighted different aspects that, in their view, made neo-brokers fundamentally different from other brokers, such as neo-brokers' remuneration structures, investor engagement strategies (e.g., the use of DEPs), digital interfaces, and target audience. Several commenters noted their view that while neo-brokers' main activities are the same as other broker-dealers, neo-brokers' approach and the conflicts of interest that arise from their business model distinguish them from other broker-dealers.

2.2.1 Fees and Commissions

Neo-brokers charge retail investors low direct fees for their services and typically have a low to zero commission trading approach.

²³ The U.S. SEC and FINRA have stated that neither the U.S. federal securities laws nor the rules and regulations thereunder, including those of self-regulatory organizations, use the term "neo-brokers." As such, while there are broker-dealers that operate within the United States that may fit the "neo-broker" definition, these firms are subject to all the federal securities laws, U.S. SEC rules, and FINRA rules the same as other U.S. registered broker-dealers, and no such distinction is made by U.S. regulators between a "neo-broker" and any other broker-dealer. Similarly, in Canada, "neo-brokers" are subject to the same requirements as broker-dealers. This situation seems to be common to other jurisdictions as well.

²⁴ Regulators like ASIC in Australia and the FCA in the United Kingdom stated in response to neo-broker-related questions in the survey that they closely monitor neo-brokers concerning practices such as high-risk product offerings, inadequate supervision, and misleading marketing tactics.

2.2.2 Revenue Generation/Remuneration

As a result of their typical low to zero trading commission approach, survey responses from IOSCO members reported that neo-brokers may:

- (1) receive little to no commission for each retail investor trade;
- (2) depend more on other sources of trading revenue, such as PFOF; and
- (3) may seek additional revenues by promoting the offering of other firm services to retail investors that are ancillary to trading services or are related to the holding of retail investor assets.

Examples of trading revenue noted by regulators as being received by neo-brokers²⁵ include:

- (1) PFOF;²⁶
- (2) revenues neo-brokers receive from affiliated investment advisers;²⁷
- (3) interest earned on margin loans and cash deposits;²⁸
- (4) income generated from securities lending;²⁹ and
- (5) reduced trading fees charged by foreign executing brokers who are benefitting from PFOF.³⁰

AFM/NED reported that some neo-brokers' subscription models were based on a monthly fee where all trading commissions are included.

A couple of commenters in the consultation of this Report were of the view that the bundling of other services was a key characteristic of neo-brokers

²⁵ IOSCO members responding to the survey did not indicate that these revenue sources were exclusive to neo-brokers, but merely that they had observed neo-brokers that obtained revenue through such sources.

²⁶ This is a revenue source experienced in Canada.

²⁷ This is a revenue source experienced in the United States for brokerages generally.

²⁸ This is a revenue source experienced in the United States for brokerages generally.

²⁹ This is a revenue source experienced in the United States for brokerages generally.

³⁰ AUS/ASIC.

and resulted in fees that investors may not be aware of or understand.

Moreover, some commenters noted their view that neo-broker services are expanding and diversifying to include investment services beyond trade execution, such as robo-advisory and portfolio management, and other financial services, such as banking and payments. One of these comments took the position that these “ancillary services” are now central to the investor experience.

2.2.3 Target Audience

Neo-brokers typically focus on retail investors, including those that may be younger and less experienced and seeking easy and affordable access to financial markets.³¹ Survey respondents noted that, because of the low direct fees charged to retail investors, neo-brokers may position themselves as a low-cost alternative to other brokers and thereby attract retail investors with smaller amounts to invest or who seek to trade frequently.

2.2.4 Service Delivery

Neo-brokers typically offer a more limited array of services, seeking to distinguish themselves based on accessibility, innovation, and efficiency. It is, for example, uncommon for neo-brokers to provide services that require direct human interaction.

According to research conducted by the German BaFin,³² some neo-brokers in that jurisdiction offer only one trading venue for executing orders. FCA/UK highlighted that there are circumstances in which neo-brokers operate as systematic internalisers for retail clients’ trades, for example in fractional shares. FCA/UK also highlighted that, while internalisation is not an issue in and of itself, it may set up conflicts of interest that can be exploited.

Regulators responding to the IOSCO’s survey indicated a wide variety in neo-brokers’ product offerings. For example, survey respondents suggested that some neo-brokers only offer access to markets that pay them to send orders to those markets, while other neo-brokers provide access to markets that are

³¹ Junior Management Science (JUMS) [ISSN:] 2942-1861 [Volume:] 7 [Issue:] 5 [Year:] 2022 [Pages:] 1375-1399.

³² See [BaFin – Expert Articles – The promises neo-brokers make – and the ones they keep](#).

popular with retail investors in their jurisdiction, irrespective of whether they are paid to send orders to each market. In addition, several survey respondents generally indicated that neo-brokers offered trading in domestic and/or foreign shares and exchange-traded funds.³³ Of note, regulators in Australia, Spain and the United Kingdom all indicated that some neo-brokers in their jurisdictions are also offering trading in crypto assets. Neo-brokers typically do not make recommendations to retail investors as part of their service offering. As suitability assessment obligations trigger off a broker-dealer providing a recommendation to a retail investor, neo-brokers would thus not typically be subject to such obligations.

One commenter during the consultation of this Report suggested that neo-brokers were successful because of features such as a mobile-first approach, an engaging interface, and offering fractional shares.

Another commenter suggested that some neo-brokers have introduced improved transparency practices compared to other broker-dealers, such as toggled participation, income dashboards, and clearer opt-in flows. However, the same commenter raised concerns about potential oversimplification on the platforms – not just in pricing but also in trading information. For example, investors may be unaware of the share class they are purchasing or that the trading currency on the platform may differ from the underlying asset denomination.

Several commenters highlighted the limited number of trading venues for executing orders placed through neo-brokers. In particular, two commenters noted that neo-brokers tend to be affiliated with a single or limited number of market-makers. One of the two commenters raised concerns of common ownership between the neo-broker and the execution venue, and the impact on best execution requirements and competition. A third commenter stated that neo-brokers do not contribute to price formation as trades are always based on a benchmark price, rather than being executed on public markets where the price is determined on the order book.

2.3 Promotional Activities and Marketing Strategies of Neo-Brokers: Neo-brokers and Finfluencers

Regulators who responded to the survey noted that while neo-brokers employ

³³ Australia, Canada, Japan, Spain and the United Kingdom all indicated that trading in domestic and/or foreign shares and exchange traded funds was offered.

“traditional” advertising methods (such as television, print media and billboards) to acquire new retail investors, they also commonly use social media to promote their services. Advertising campaigns may also be characterized by celebrity and financial influencer (finfluencer) endorsements: a feature that appears to be connected to the neo-brokers’ exclusively online mode of offering their services and products.

Certain survey respondents also noted that neo-brokers in their jurisdictions employ diverse promotional activities and marketing techniques to attract new retail investors and stimulate trading activity among existing retail investors. These strategies vary across jurisdictions and encompass various incentives and tactics.

TABLE 1: Neo-Brokers Promotional Activities

Common neo-broker promotional activities observed ³⁴ by survey respondents³⁵ include: (1) Reducing or eliminating trading commissions; (2) Offering free shares, cash rebates, and refer-a-friend programs; (3) Providing access to ‘premium’ tools and data; (4) Facilitating trading in fractional shares; (5) Running promotional contests or games; (6) Social media marketing; (7) Remuneration for invested cash; and (8) Sponsoring sporting events and teams.

Some regulators who responded to the survey noted that collaboration

³⁴ By NED/AFM, AUS/ASIC, Canada (AMF (Québec), CIRO and OSC), ESP/CNMV, UK/FCA, JAPAN/FSA, US SEC, Hong Kong/SFC, Singapore MAS, Poland/KNF.

³⁵ The promotional activities noted varied across survey respondents, and certain of these activities may be prohibited in certain jurisdictions.

between neo-brokers and finfluencers has become widespread across their jurisdictions.³⁶

A couple of commenters during the consultation on this Report also highlighted the use of DEPs, finfluencers, and social media to attract investors and encourage trading as typical practices of neo-brokers.

IOSCO has released separate reports on finfluencers³⁷ and digital engagement practices³⁸. These reports include good practices that have relevance to neo-brokers and can also be referred to.

³⁶ NED/AFM, FRA/AMF, ESP/CNMV, HK/SFC, POL/KNF.

³⁷ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD795.pdf>.

³⁸ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD794.pdf>.

Chapter 3 – Potential Risks from the Activities of Neo-Brokers

Responding jurisdictions have suggested certain risks may exist relating to the business models of neo-brokers. These risks may lead to conflicts of interest by neo-brokers as well as insufficient or unclear information being disclosed to retail investors, notably as it relates to material fees and other charges. This chapter provides an overview of these potential risks.

3.1 Potential Risks Arising from the Cost Structure of Neo-Brokers

Regulators that responded to the survey indicated that neo-brokers' low or zero commission structure may encourage practices that prioritise the firm's interest over retail investors' interests. These practices could include encouraging or requiring retail investors to:

- (1) **trade more frequently**, compensating for the lower or lack of commissions earned per trade;
- (2) **utilize ancillary services** related to the trading or holding of assets, such as margin loans;
- (3) **use other firm services** to execute trades (such as foreign exchange services); and/or
- (4) **engage in trading activities that generate other sources of revenue for the broker, such as:**
 - (a) entering into trades that will be routed to markets providing PFOF and/or market makers that can compensate neo-brokers by providing them with market data; and/or
 - (b) trading fractional shares which may benefit the neo-broker through systematic internalisation.

Each of these may create a set of potential conflicts of interest, which we explore below.

3.1.1 More Frequent Trading

A few studies³⁹ have indicated over the years that investors who trade more frequently are less likely to outperform investors who trade less frequently. In cases cited by these reports, a significant factor in this potential lower performance is the higher trading fees that are borne by the investor who trades more frequently.

Nevertheless, even with low or no trading fees or commissions, investors who trade frequently shoulder the bid-ask spread costs. This may result in a conflict between the interests of the broker (who could benefit from more frequent investor trading) and retail investors (who generally do not benefit, and in some cases may have lower returns, from more frequent trading).

As noted above, neo-brokers frequently charge low to no trading commissions and employ DEPs, which may create a stronger investor incentive to trade more frequently, which in some cases may be against the investor's own best interests.

3.1.2 Ancillary Services

Regulators that responded to the survey indicated that given their low or zero commission model, neo-brokers may have incentives to earn other sources of revenue by promoting ancillary services or promoting trading on markets that require the retail investor's use of other firm services to complete the trade (such as foreign exchange services).

In Australia, one neo-broker proposed an automatic opt-in by retail investors for a proposed ancillary service. The regulator in this jurisdiction noted that this practice creates a risk that many retail investors may take no action to opt-out or fail to understand the nature of risks of the proposed service, with the result that they are opted-in automatically. Requiring retail investors to make a conscious choice to opt-in to the proposed service would likely see a much lower take-up rate. Also, in both Australia and Spain, the practice of tying low account fees to retail investors agreeing to receive one or more

³⁹ Shefrin & Statman 1985; Barber & Odean, 2000; Barber & Odean, 2013; Gargano & Rossi, 2018.

ancillary service has been observed.

This practice potentially raises conflicts of interests given a neo-broker may not fully disclose the costs and risks assumed by the retail investor in a bundled account service offering.

3.1.3 Indirect Trading Revenue

Regulators that responded to the survey indicated that neo-brokers' low or zero commission structure may incentivize the receipt of indirect trading revenue, which may introduce potential for conflicts of interest including, for example, potential order routing bias as neo-brokers may route orders to markets offering the highest rebates or incentives rather than those providing the best execution prices for investors. This practice could also potentially reduce transparency to retail investors, as investors may face additional costs related to wider bid-ask spreads or reduced price improvement opportunities on certain venues.

3.1.3.1 Payment for Order Flow Practices

PFOF is a practice wherein broker-dealers, including neo-brokers, route investors' orders to third-party market makers or an exchange market in return for compensation.⁴⁰

PFOF generally occurs in two forms:

- (1) **PFOF from Exchanges** - Some exchanges offer a type of PFOF by compensating brokers, including neo-brokers, that provide liquidity in the form of rebates. For example, most national securities exchanges in the United States offer this form of PFOF. These exchanges are known as "maker-taker" exchange venues, wherein certain liquidity providing orders (e.g., limit orders) are paid a rebate by the exchange while liquidity demanders pay the access fee to the exchange. Exchanges can also be inverted (also known as taker-maker), in which liquidity demanders are offered a rebate and liquidity providers are assessed an access fee. The last form of fee structure is flat; a flat exchange either charges one or both sides a fee but does not offer rebates. Such rebates and fees are reflected in an exchange's fees,

⁴⁰ For earlier IOSCO work on this topic, see the [IOSCO Report on Order Routing Incentives](#), 2017.

which are considered rules of an exchange.⁴¹

- (2) **PFOF from Market Makers** – A market maker holds itself out as being ready to buy and sell a security for its own account on a regular or continuous basis.⁴² A market maker seeks to profit off the spread between the bid price, or the price at which it is willing to buy a security, and the ask price, or the price at which it is willing to sell a security. To secure order flow, market makers may compensate brokers, including neo-brokers, for directing retail investor orders to them.

Potential issues and conflicts of interest from PFOF

PFOF can create conflicts of interest when a broker, including a neo-broker, is incentivized to route retail investor orders to a market maker or an exchange for execution in return for compensation instead of prioritising the best outcomes for their clients. This can potentially affect the broker's compliance with rules relating to best execution and disclosure of information on costs and charges. Investors may also suffer from wider bid-ask spreads or reduced-price improvements.⁴³

It is, however, worth noting that there were a range of views about the scale and impact of PFOF on best execution, both within survey respondents and in studies conducted. One IOSCO member noted that PFOF arrangements may jeopardise the best execution requirement.⁴⁴ Another respondent to the survey noted that the adoption of PFOF does not necessarily affect best execution for retail investors, in cases where there is an explicit instruction by

⁴¹ In the United States, such fees must be consistent with the United States Securities Exchange Act of 1934 ("US Exchange Act"), including Section 6(b)(4), which requires that the rules of the exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and Section 6(b)(5), which requires, in part, that fees not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. In addition, such fees must be made publicly available on an exchange's website pursuant to Rule 19b-4(m) under the US Exchange Act, which requires an exchange to post and maintain a current and complete version of its rules.

⁴² In the United States, most "market makers" meet the definition of a "dealer" under the US Exchange Act and are required to register as such with the SEC. Section 3(a)(5) defines a "dealer" as "any person engaged in the business of buying and selling securities ... for such person's own account through a broker or otherwise".

⁴³ For some jurisdictions – such as those of the European Union – the PFOF practice must also comply with the rules on inducements.

⁴⁴ KNF Poland.

the retail investor to transmit the order to a specific institution or market.⁴⁵ Studies by the Dutch AFM⁴⁶ and the Spain CNMV⁴⁷ have suggested that venues permitting PFOF consistently yield worse execution prices for retail investors. Conversely, a 2023 University of California study found that execution price differences across brokers were not solely attributable to PFOF but also to variations in wholesalers' pricing strategies.⁴⁸

The regulatory landscape for PFOF

Member responses to IOSCO's survey indicate that regulatory approaches to PFOF vary significantly across jurisdictions. Nine of the 19 jurisdictions surveyed do not permit PFOF,⁴⁹ citing concerns over conflicts of interest and execution quality.

In the other 10 jurisdictions, PFOF is allowed but subject to a range of obligations such as management of conflicts of interest, best execution, and transparency obligations relevant to their jurisdiction.⁵⁰ Canadian regulators require public disclosure of exchange fees and rebates and oversight of PFOF arrangements. In the United States, the SEC mandates broker-dealers disclose PFOF arrangements,⁵¹ including quarterly reports detailing aggregate

⁴⁵ CMB Türkiye.

⁴⁶ AFM, 'AFM examines quality of order execution on PFOF trading venues', dated 9 February 2022 <<https://www.afm.nl/en/sector/actueel/2022/februari/kwaliteit-orderuitvoering-pfof>>.

⁴⁷ [Analisis PFOF.pdf \(cnmv.es\)](#).

⁴⁸ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4189239 (see para A.2, form page 2 to page 6).

⁴⁹ Poland, Taiwan, China, Australia, Netherlands, Canada, Kuwait and the United Kingdom. As of 28 March 2024, PFOF is banned all over the EU, with a conditional transition period up to 30 June 2026. In Australia, Canada and the United Kingdom, the ban affects domestic listed stocks, while foreign-listed stocks remain unaffected.

⁵⁰ Türkiye, Saudi Arabia, Bahamas, Hong Kong, Nigeria, Japan, South Korea, and the United States.

⁵¹ Based on the U.S. SEC's response to the IOSCO survey, of the 50 most active broker-dealers during the first quarter of 2022, 14 represented all PFOF payments made by wholesalers for stock orders during that period. A single firm received more than 43% of all PFOF stemming from stock orders during the first quarter of 2022. The public order-routing reports required by Rule 606 show that the six largest wholesalers collectively paid retail brokers \$235 million in PFOF in the first quarter of 2022 for orders in stocks. This \$235 million in PFOF was received almost entirely (93.8%) by four firms. While many retail brokers do not accept PFOF for marketable orders in NMS stocks routed to wholesalers, the retail brokers that do accept PFOF represented 73.88% of the dollar volume of

payments, transaction fees, and rebates.⁵²

3.1.3.2 Market Data

Market data includes information such as bid-ask spreads, trade prices, and order book depth, and can be valuable to neo-brokers for their services or for providing market insights to their retail investors.

Some market makers provide compensation to neo-brokers by sharing market data or offering reduced trading costs. This could lead to an incentive for those neo-brokers to steer order flows to specific market makers.

3.2 Potential Lack of Transparency About Information Related to Costs, Charges and Fees

3.2.1 Disclosure to investors

Most survey respondents indicated that there is no current requirement imposed on neo-brokers (or any other broker-dealers) to disclose sources of revenues to retail investors.⁵³ However, some of these survey respondents

marketable orders of retail brokers routed to wholesalers in the first quarter of 2022.

⁵² PFOF arrangements must be disclosed under several U.S. SEC and FINRA rules. Rule 606 of Regulation NMS requires broker-dealers to publish disclosures regarding the handling of their customers' orders in NMS securities. These disclosures must include, among other things, quantitative and qualitative information about the broker-dealer's relationship with venues to which it routes orders, including PFOF arrangements. These reports are available to regulators and the public. On August 8, 2023 the U.S. SEC approved a FINRA proposed rule change to adopt, among other things, new FINRA Rule 6470 (Disclosure of Order Routing Information for OTC Equity Securities), which will require members to publish similar order routing disclosures for OTC equity securities. Additionally, Rule 607 of Regulation NMS requires broker-dealers to disclose upon opening a new customer account and on an annual basis thereafter policies relating to PFOF and order routing. SEC Rule 10b-10 also generally requires that broker-dealers indicate on customer confirmation statements when PFOF has been received on a transaction, and also that the source and nature of the compensation received in connection with the particular transaction will be furnished upon the customer's written request.

⁵³ However, in the United States, SEC-registered broker-dealers and investment advisers that offer services to retail investors must deliver to retail investors a brief customer or client relationship summary that provides information about the firm,

stated that the reason for not requiring disclosure of sources of revenues to retail investors may be in part explained by current requirements to disclose fees and charge components, which should provide transparency to the investor on charges specific to their trades. Specifically:

- (1) in all jurisdictions the price or charge associated with the transaction or service offering must be disclosed by all neo-brokers to the retail investor; and
- (2) in some jurisdictions there are specific requirements on all broker-dealers (thus including neo-brokers) to disclose⁵⁴:
 - (a) the direct trading charge components to the retail investor on a pre-trade basis;⁵⁵
 - (b) the direct trading charge components to the retail investor in the trade confirmation relating to the trade;⁵⁶ and

including certain examples of how the firm makes money and the incentives those examples create. See Form CRS Item Instruction 3.B.(ii). While not the focus of this survey or report, in the United States, when providing recommendations to retail investors, broker-dealers are generally subject to additional obligations under applicable law.

⁵⁴ In the European Union investment firms are obliged to provide investors before the provision of an investment service with information about all the costs and charges. This includes information relating to both investment and ancillary services, the cost of financial instruments and any third-party payments. When an ongoing service is provided, investment firms are also obliged to provide annual ex post cost information. All costs will be aggregated and expressed both as a cash amount and as a percentage.

⁵⁵ Direct trading charge component disclosure is required to be provided to retail investors on a pre-trade basis in Canada, France, Hong Kong, Poland, and by the NFA in the United States. NFA responses to this survey pertained solely to NFA members, see e.g., futures commission merchants. The regulations in the United States govern all broker-dealers engaged in such applicable activities and are not restricted to neo-brokers.

⁵⁶ Direct trading charge component disclosure is required to be provided to retail investors in the trade confirmation relating to the trade in Australia, Canada, Hong Kong, Poland, and by FINRA and the SEC in the United States. The regulations in the United States govern all broker-dealers engaged in such applicable activities and are not restricted to neo-brokers.

- (c) the indirect charge components (including indirect trading charges) to the retail investor on an annual basis.⁵⁷

Some IOSCO members, despite fees and charge components disclosure, noted that there is not always clarity and transparency on fees and charges, particularly where the neo-broker advertises itself as commission free. For example, a concern observed in Australia was that several neo-brokers were marketing zero or low-cost brokerage services but were taking advantage of retail investors who had to incur a range of other fees (such as foreign currency conversion charges) that were required to undertake trading activity.

Some survey respondents suggested that, in jurisdictions where there was a demonstrated lack of transparency in violation of the jurisdiction's regulatory and legal framework:

- (1) that regulators should consider a consistent method for the disclosure of foreign exchange charges by neo-brokers. Certain survey respondents also noted that foreign exchange charges account for a large proportion of revenue for many neo-brokers in their jurisdictions.⁵⁸
- (2) that regulators could assess whether the neo-broker advertising of commission-free trading is fair, clear and not misleading.
- (3) that regulators should encourage neo-brokers to be more transparent with disclosing fee and charge structures to retail investors' equity and derivatives orders could mitigate possible conflicts of interest.

When it comes to PFOF, survey respondents also noted mixed practices in relation to the disclosure of PFOF arrangements to retail investors. In the United States, the SEC has a rule which explicitly requires broker-dealers (including neo-brokers) to disclose to their retail investors whether PFOF is

⁵⁷ Indirect trading charge component disclosure is required to be provided to retail investors on an annual basis in Canada, Poland and Spain.

⁵⁸ The IOSCO's RMCTF Final Report (see par. 2.8) also drew attention to the persistent conflicts of interest in investment firms (including neo-brokers) who design and offer retail over the counter (OTC) leveraged derivatives (such as CFDs), that are marketed and distributed to retail investors via the firms' own online OTC-trading platforms. There is a concern that conflicts of interests are not fully resolved yet, leading to potential adverse effects for retail investors, who often cannot assess the perceived arbitrary price setting mechanism, especially in CFD markets.

received by the broker-dealer.⁵⁹ The U.S. SEC also requires all broker-dealers to prepare quarterly reports that include the net aggregate amount of any PFOF received, payment from any profit-sharing relationship received, transaction fees paid, and transaction rebates received, both as a total dollar amount and per share, for certain order types, and make these reports available to the public.⁶⁰ FINRA Rule 6151 further requires members submit to FINRA for centralized publication the public order routing reports required under US SEC Rule 606(a).⁶¹

Moreover, in the United States,⁶² exchange-imposed fees and rebates are reflected in the exchange's fees and must be made publicly available on the exchange's website. In other jurisdictions, while there is no specific disclosure requirement with respect to PFOF, it is still generally expected that broker-dealers make disclosures about PFOF to retail investors.⁶³ For instance, Canada [AMF (Québec), CIRO and OSC (Ontario)] noted that PFOF may be required to be disclosed to retail investors as part of the management of broker-dealer conflicts of interest. Other jurisdictions noted that firms are expected to disclose fees, inducements or commissions to retail investors which could capture PFOF arrangements.⁶⁴ Furthermore, as in the United States, in Canada⁶⁵ exchange-imposed fees and rebates are reflected in the exchange's fees and must be made publicly available on the exchange's website. These fee models are also subject to review and approval of the

⁵⁹ US SEC, Rule 10b-10(a)(2)(i)(C) under the Exchange Act.

⁶⁰ Rule 606 of Regulation NMS under the Exchange Act. On August 8, 2023, the US SEC approved a FINRA proposed rule change to adopt, among other things, new FINRA Rule 6470 (Disclosure of Order Routing Information for OTC Equity Securities), which will require members to publish order routing disclosures for OTC equity securities similar to those required under Rule 606(a) for NMS stocks.

⁶¹ FINRA will also separately issue a Regulatory Notice regarding Rule 6470 (Disclosure of Order Routing Information for OTC Equity Securities), which will further explain how the new rule requires members to create and submit to FINRA order routing disclosures for OTC Equity Securities.

⁶² In USA, refer to Rule 19b-4(m) under the Exchange Act.

⁶³ E.g., Hong Kong, Bahamas, and Türkiye.

⁶⁴ France, Bahamas; Türkiye, and Spain.

⁶⁵ Section 3.2 of National Instrument 21-101, *Marketplace Operation* (NI 21-101), requires that all exchanges file their initial proposed fee schedule and any proposed amendments to their fee schedule with the Canadian Securities Administrators for their advance approval.

relevant regulator as well as other constraints.⁶⁶

3.2.2 Disclosure to Regulators

Several survey respondents indicated that there was no requirement for neo-brokers (or any other broker-dealers) within their jurisdiction to report revenue by source within each business line to the regulator.⁶⁷

For example, where PFOF is concerned, except for the United States (which requires disclosure of order routing information, which is then made publicly available, including to regulators) and Canada, no other jurisdiction requires specific disclosure of PFOF to the regulatory authority.

In those jurisdictions, PFOF with respect to maker-taker or taker-maker exchange fee models must be disclosed to the respective regulatory authorities. The U.S. SEC noted that all exchange fees and rebates are filed with the SEC via public filings.⁶⁸ Canada [AMF (Québec), CISO and OSC] noted that these fee models must be disclosed and approved by the Canadian Securities Administrators jurisdiction with oversight responsibilities for that trading.⁶⁹ In Hong Kong, the SFC requires entities to report their monthly trade turnover, income arising from securities dealings, commission paid and received, and management fees charged on (or charged by) group companies to it monthly. In practice this should include any PFOF arrangements, but the SFC noted that PFOF is virtually non-existent in the retail market in Hong Kong.

⁶⁶ Section 5.1 of NI 21-101 *Marketplace Operation* prohibits a trading venue from setting fees that permit unreasonable discrimination among retail investors and participants or that impose unreasonable or unnecessary burdens on competition. In addition, section 6.6 of NI 23-101 sets a maximum fee that an active order can be charged, which has the effect of limiting the size of the rebate.

⁶⁷ NED/AFM, FRA/AMF, AUS/ASIC, ESP/CNMV, HK/SFC, JAPAN/FSA, US/NFA (solely with respect to NFA members).

⁶⁸ All exchange fees and rebates are disclosed to the US SEC as part of the exchange's fee schedule, which are filed with the SEC pursuant to section 19(b) and Rule 19b-4 of the U.S. Exchange Act.

⁶⁹ Section 3.2 of National Instrument 21-101, *Marketplace Operation* (NI 21-101), requires that all exchanges file their initial proposed fee schedule and any proposed amendments to their fee schedule with the Canadian Securities Administrators for their advance approval.

3.3 Potential Risks Relating to Neo-Broker Operations

In addition to pointing the same cost structure-related risks as identified within the survey of IOSCO Committee 3 members, public commenters also identified potential risks relating to neo-broker operations. Specifically, a number of public commenters indicated their view that neo-brokers have elevated operational risk as they commonly rely on digital platforms with little or no human interaction to provide services to clients and often do not have physical offices where clients can submit requests or complaints. This characteristic may distinguish them from other brokers that do not operate solely on an online basis.

3.4 Trading Venue Related Risks

Also, consistent with the public comments provided regarding the characteristics of neo-brokers (refer to section 2.1 of Chapter 2), where several highlighted their views that neo-brokers commonly use a limited number of trading venues for executing orders, several public commenters pointed out that there are both potential risks and potential conflicts of interest associated with the use of a limited number of trading venues. The potential risks they identified relate largely to the potential lessening of the neo-brokers' ability to meet their best execution obligations where they use of a limited number to trading venues. The potential conflicts of interest they identified relate to situations where one or more of the limited number of trading venues they use are affiliated firms, which may incentivize neo-brokers to route orders to affiliated trading venues.

3.5 General Comments Relating to Neo-Broker Risks

Several public commenters observed that the neo-broker business model and the activities a neo-broker engages in continue to evolve. This observation is consistent with observation by regulators responding to the survey that the initial differences in the activities of neo-brokers (versus other brokers) continue to narrow as:

- (1) digital services that were initially exclusive to neo-brokers are now being introduced by other brokers, and
- (2) a number of neo-brokers are expanding their service offerings to include brokerage services not inherent to the neo-broker model, including in some cases advisory services.

3.6 Sufficiency of Existing Regulatory Framework

Regarding the sufficiency of the existing regulatory framework for neo-brokers, one public commenter stated that the existing regulatory framework sufficiently addressed neo-broker risks while four others suggested that there may be a need to enhance the existing regulatory framework to address unique neo-broker business model risks. These four public commenters varied in their views as to how to enhance the existing regulatory framework as:

- (1) one public commenter suggested that principles-based rules be adopted “... to adapt to constant technological advances while still providing adequate responses to emerging risks.”
- (2) while three other public commenters suggested more prescriptive specific rule requirements be adopted to address certain specific neo-broker activities-related risks.

IOSCO believes that the valuable suggestions and inputs on this topic require further analysis. IOSCO highlights that this report is primarily focused on the identification and initial discussion of risks associated with the neo-broker activities and business model. IOSCO is not proposing recommendations in favour or against any of these specific suggestions.

3.7 Addressing Neo-Broker Conflicts of Interest

Five of the eight public commenters provided comments relating to:

- (1) specific categories of neo-broker conflicts of interest (i.e., compensation-related conflicts of interest);
- (2) specific situations they identified as a neo-broker conflict of interest.⁷⁰

For compensation-related conflicts of interest, one public commenter suggested the adoption of specific provisions to require full compensation transparency whereas another was comfortable with continuing to apply a principles-based conflict of interest management approach to addressing

⁷⁰ For example, IOSCO has released a separate report on digital engagement practices. Comments relating to these practices (and the use of client information as part of these practices) have not been considered in this report.

compensation-related conflict of interest situations.

Two public commenters provided specific conflict of interest management suggestions relating to PFOF as follows:

- (1) one suggested a combination of greater prioritization on achieving best execution, providing comprehensive and transparent disclosure of all costs, fees and revenue streams and placing prohibitions and or stricter limitations on PFOF.
- (2) the other suggested a PFOF ban.

One public commenter recommended the adoption of specific rules to address the potential risks that arise when neo-brokers use a limited number of trading venues for executing orders.

Several of the above suggestions are to ban or limit the activities of neo-brokers that may give rise to conflicts of interest or to impose substantial additional disclosure obligations for other activities, which could result in significant impact if these suggestions are adopted. Further, IOSCO is aware of ongoing work in a number of IOSCO jurisdictions to analyse many of these potential broker-dealer conflicts of interest matters to determine what actions, if any, should be taken to enhance the principles-based conflicts of interest management requirements that are in place in most IOSCO jurisdictions. IOSCO has therefore not included any specific recommendations in this report regarding these neo-broker conflicts of interest management suggestions.

Chapter 4 – Complaints, Supervision, Enforcement, International Cooperation and Cross-Border Aspects of Neo-Brokers

4.1 Investor Complaints Against Neo-Brokers

Survey respondents noted a diverse range of investor complaints against neo-brokers, but most complaints were related to malfunctions of the IT infrastructure or to operational matters. Among these, jurisdictions highlighted:

- (1) Problems when processing dividends from foreign shares;⁷¹
- (2) Difficulties in transferring holdings between brokers, or holdings not appearing in account;⁷²
- (3) Complaints regarding inability to execute orders in the US markets;⁷³
- (4) Challenges with margin trading and the liquidation practices of the brokers;⁷⁴ and

⁷¹ AFM/NED.

⁷² ASIC/AUS.

⁷³ ASIC/AUS.

⁷⁴ NFA/USA (solely with respect to NFA members). However, the U.S. SEC and FINRA have stated that neither the U.S. federal securities laws nor the rules and regulations thereunder, including those of self-regulatory organizations, use the term “neo-brokers.” For similar reasons, the term “neo-brokers” is also not used in Canada. See *supra* footnote 25 citing U.S. SEC and FINRA and accompanying discussion.

- (5) Complaints about the transaction systems or costs which were not directly related to CFD transactions⁷⁵ or complaints relating to margin calls and positions' closing.⁷⁶

One survey respondent noted that other complaints concerning neo-brokers not related to IT infrastructure or to operational matters were related to disclosure and transparency (inaccurate information on tax statements; inaccurate pricing information, including historical pricing information; misleading and deceptive advertising; or sending retail investor data overseas without proper disclosure) and inappropriate conduct (selling inappropriate products to inexperienced investors).⁷⁷

No specific complaints related to PFOF were reported by most jurisdictions who responded to the survey.

4.2 The Supervision of Neo-Brokers

All jurisdictions responding to IOSCO's survey have indicated that they supervise neo-brokers in the same manner as other market intermediaries. For example, in the European Union, neo-brokers, like other broker-dealers, are permitted to provide services on a cross-border basis and to offer their products to retail investors based in any other EU jurisdictions (host EU jurisdictions), by the establishment of branches and/or by freely providing services without the establishment of branches. In addition, neo-brokers – like any other broker-dealer – can also provide services on a reverse solicitation basis.⁷⁸ Considering the distribution of supervisory remits envisaged by the EU legislation, these activities may result in supervisory issues implying cross border cooperation among home and host European Union Member States.

According to the IOSCO survey responses, supervisory actions against neo-brokers have been taken by regulators where:

- (1) the firm has made claims that its service offering is free and has not provided sufficiently balanced information to retail investors about the

⁷⁵ ASIC/AUS.

⁷⁶ KNF/POL.

⁷⁷ ASIC/AUS.

⁷⁸ Intended as the practice where a retail investor initiates at its own exclusive initiative the provision of an investment service by an intermediary.

charges retail investors may be required to incur;⁷⁹

- (2) the regulator's name and logo has been misused to promote the firm's products and services;⁸⁰
- (3) finfluencers have been used to promote firm products and services, giving rise to inappropriate investor trading behaviours;⁸¹
- (4) neo-brokers have used the terms 'safe' and 'secure' to describe their arrangements for holding client money and assets without qualification and creating a misleading impression that these arrangements were without risk;⁸²
- (5) neo-brokers had to either strengthen the compliance function and their corporate governance;⁸³ and
- (6) neo-brokers' regulatory reporting of transactions was non-compliant.⁸⁴

TABLE 2 – Examples of Supervisory Approaches

CNMV Spain adopts a risk-based approach, conducting on-site inspections and desk-based reviews to evaluate compliance with regulatory standards. Similarly, SEC Nigeria emphasizes periodic reporting requirements and risk-based supervision.

ASIC employs a combination of proactive and reactive surveillance to

⁷⁹ Actions relating to failure to provide sufficiently balanced information have taken place in the Netherlands (AFM), Spain (CNMV), Australia (ASIC) and by FINRA and the SEC in the United States. As mentioned above, the U.S. SEC and FINRA have stated that neither the U.S. federal securities laws nor the rules and regulations thereunder, including those of self-regulatory organizations, use the term "neo-brokers." See *supra* footnote 17. As such, while there are broker-dealers that operate within the United States that may fit the "neo-broker" definition, these firms are subject to all the federal securities laws, U.S. SEC rules, and, if a FINRA member, FINRA rules the same as other U.S. registered broker-dealers, and no such distinction is made by U.S. regulators between a "neo-broker" and any other broker-dealer.

⁸⁰ ASIC Australia.

⁸¹ SFC Hong Kong, CNMV Spain, AFM Netherlands, Nigeria SEC.

⁸² ASIC Australia.

⁸³ AFM Netherlands.

⁸⁴ AFM Netherlands.

monitor market intermediaries, including neo-brokers, to ensure compliance with the law. Resources are directed based on a risk-based approach, focusing on entities or activities posing the greatest risk of non-compliance or harm, and which aligns with ASIC's strategic priorities.

The U.S. SEC conducts periodic examinations of regulated entities (including broker-dealers) to ensure adherence to federal securities laws, focusing on investor protection and market integrity.

FINRA oversees compliance among its member broker-dealers through its examinations and surveillance programs, which, among other things, analyses trading activity, and investigates potential violations of its rules and the federal securities laws.

CIRO Canada conducts field examinations to assess business and trade conduct at broker-dealers generally.

The UK FCA utilizes supervisory tools such as voluntary requirements, senior manager attestations, and inclusion on the FCA watchlist to ensure adherence to rules, including the Consumer Duty.

AFM Netherlands uses a monitoring tool to scan advertisements and conducts thematic reviews based on risk assessments.

AMF France integrates dedicated questions into annual compliance reporting, which supervisors analyse and may initiate thematic actions at national and European levels.

In the Bahamas, firms undergo offsite and onsite supervision, during which compliance with relevant legislation is evaluated, including adherence to best execution practices and transparency regarding costs and fees.

Singapore MAS subjects regulated entities to ongoing supervision as well as thematic inspection.

Other regulators worldwide, including the SFC in Hong Kong and SPK in Türkiye, mentioned they are adjusting their oversight to address the evolving landscape of online brokerages, albeit with varying degrees of specificity in classification and authorization.

4.3 Enforcement Cases

Enforcement actions taken by regulators against neo-brokers seem to follow

the increase of their market penetration in certain jurisdictions, but were not reported to substantively deviate from the types of actions taken against other brokers in any material way.

The violations detected and sanctioned by regulators mainly concerned:

- (1) the rules on best execution, on information and disclosure of costs, charges and PFOF;
- (2) the safeguarding of retail investors' assets;
- (3) the reporting to retail investors; and
- (4) the advertising activity.

In the Netherlands, the AFM generally noted criticalities in neo-brokers' compliance function, corporate governance, transaction reporting, and marketing and advertising policies. AFM's enforcement actions ranged from warning letters to fines and orders for incremental penalty (a sort of provisional fine, only final if the firm does not comply within a certain period) for different firms.

The CNMV (Spain) detected some issues from neo-brokers providing services to Spanish retail investors on a cross-border basis, mainly related to information to retail investors and marketing communication. The main concerns identified have been:

- (1) Information on fractional shares and other shares that might have misled retail investors about their corporate rights and their possibility of transferring the position to another depository;
- (2) Information on trading advertised as without commissions, where the information did not explicitly disclose that some indirect costs applied; and
- (3) PFOF, where the firm did not comply with the EU rules to demonstrate that PFOF increased the quality of the service provided and did not affect the best execution and conflict of interest rules.

ASIC's general actions regarding neo-brokers have resulted in the following outcomes since the onset of the COVID-19 pandemic in March 2020:

- (1) Disrupting proposals to offer retail securities lending products that carry significant risks, and are inappropriate, for retail investors.

- (2) Disrupting proposals to offer trading in unregulated crypto assets alongside trading in regulated securities, that may have led retail investors to underestimate risk or believe that investor protections apply where they do not.
- (3) Improving the Australian Financial Services licensee oversight of authorised representatives to ensure that trading providers have the expertise and supervision required to protect retail investors' assets and prevent misconduct.
- (4) Engaging with neo-brokers to rectify misleading or deceptive statements that may result in retail investors choosing to use a product or service based on inaccurate depictions of fees, safety or security.
- (5) Promoting informed decision making by retail investors, by encouraging trading providers to enhance disclosure of product features and risks, including custody of retail investor assets.
- (6) Engaging with online trading providers to rectify their arrangements for holding retail investor money, reducing the risks to investor funds by correctly segregating retail investor funds from operational funds.
- (7) Requiring the disgorgement of profits by neo-brokers, through negotiated outcomes, for breaches of the law including for undisclosed foreign exchange commissions.

ASIC also took a stop order⁸⁵ against a neo-broker from issuing a product (a retail securities lending program offered as a derivative) to retail investors because of deficiencies in the product's target market determination (TMD) and product disclosure statement (PDS).

ASIC had concerns that the neo-broker had inappropriately included in the target market investors whose investment objectives were likely inconsistent with the features and risks of the product. ASIC were also concerned that the PDS was defective because, among other things, it omitted important information about the benefits, fees and commissions of the product. ASIC revoked the TMD stop order after the neo-broker, among other things, more narrowly defined the class of retail investors which comprised the target market for the product. A final stop order was issued in respect of the PDS. The neo-broker has not made any further offers of the product to retail

⁸⁵ See [Media Release \(23-056MR\)](#) ASIC places interim stop orders on TMD and PDS for a securities lending product (9 March 2023).

investors in Australia.

ASIC has also entered a court enforceable undertaking with an Australian financial services (AFS) licensee who had appointed a large number of authorised representatives, including neo-brokers, to provide financial services on its behalf to retail clients.⁸⁶ ASIC's investigation uncovered concerns that the AFS licensee had breached its general obligations, including by failing to adequately supervise its many authorised representatives. A number of those authorised representatives were neo-brokers who offered online trading platforms and crypto-based investment products that posed risks to retail clients. The AFS licensee must engage an ASIC-approved independent expert to review its systems and processes.

As for the United States market,⁸⁷ in recent years FINRA entered into settlements with broker-dealers that may align with this report's definition of neo-brokers for violations of FINRA's best execution rule in connection with the handling of retail investor orders. Among other things, FINRA found that these brokers failed to exercise reasonable diligence to ascertain whether the markets to which the firms' routed orders provided the best market as compared to other competing markets for the relevant securities.

4.4 Cross-Border Activity and International Cooperation

4.4.1 Cross-Border Activity

Cross-border activity by neo-brokers is diverse. Of the 19 responses to IOSCO's survey, three jurisdictions had both domestic and non-domestic operating neo-brokers, three regulators only had non-domestic neo-brokers,

⁸⁶ [24-29OMR Sanlam admits to inadequate oversight of authorised representatives | ASIC](#).

⁸⁷ As mentioned above, the U.S. SEC and FINRA have stated that neither the U.S. federal securities laws nor the rules and regulations thereunder, including those of self-regulatory organizations, use the term "neo-brokers." See *supra* footnote 17. As such, while there are broker-dealers that operate within the United States that may fit the "neo-broker" definition, these firms are subject to all the federal securities laws, U.S. SEC rules, and, if a FINRA member, FINRA rules the same as other U.S. registered broker-dealers, and no such distinction is made by U.S. regulators between a "neo-broker" and any other broker-dealer. As a result, while the discussion of these enforcement actions within the United States market pertains to broker-dealers deemed to fit within the scope of this report's definition of a "neo-broker," such distinction is not made within the United States regulatory framework. For similar reasons, the term "neo-brokers" is also not used in Canada.

three had domestic neo-brokers only, and the rest were either not aware or did not provide a response.⁸⁸

For EU respondents, non-domestic neo-brokers operated on a freedom of services basis. For the non-EU respondents who submitted a survey response, non-domestic neo-brokers had to establish some kind of local entity.

Data appears less prevalent as it relates to the use of non-commission trading revenue by neo-brokers. Almost all EU members have indicated that non-domestic neo-brokers use PFOF but a significant minority of non-EU jurisdictions stated that they have no data/information available on this topic.

Canada's response [AMF (Québec), CIRO and OSC] noted that certain non-domestic exchanges who offer PFOF do grant cross-border access to Canadian neo-brokers.

4.4.2 International Cooperation

Most respondents have not so far used international cooperation for supervisory or enforcement actions against neo-brokers. For those who have, IOSCO's MMoU and EMMoU have proven to be effective tools to engage peer regulators and share their understanding of market developments, potential harms and how to mitigate them.

Some EU regulators have carried out peer reviews and common supervisory actions (CSA) - coordinated by ESMA - on multiple aspects related to broker-dealers (including a few neo-brokers) such as [information on costs and charges](#), sustainability requirements, disclosure rules with regard to marketing communications and advertisements of financial products, product governance rules, and cross border activities.

Public commenters provided very substantive suggestions regarding international cooperation matters. These suggestions included:

- (1) developing a set of highly harmonized cross-jurisdictional supervisory standards

⁸⁸ Only ASIC was able to provide a numerical breakdown of the number of domestic and non-domestic firms, with the caveat that these were indicative only and the numbers were derived from recent supervisory activity. Additionally, as noted above, many jurisdictions do not distinguish between brokers and neo-brokers and so may not have been able to provide a breakdown for this reason.

- (2) developing a common set of neo-broker guidelines applicable across all jurisdictions
- (3) information sharing across jurisdictions
- (4) introducing frameworks that facilitate cross-border enforcement actions

IOSCO assessed these valuable suggestions and determined that developing a set of highly harmonized neo-broker supervisory standards or a common set of neo-broker guidelines applicable across all jurisdictions would require significant further policy analysis. As an illustrative example, developing a common set of neo-broker guidelines applicable across all jurisdictions would require that:

- (1) local jurisdictional differences in neo-broker business models and the uniqueness of applicable legal frameworks and regulatory regimes be thoroughly considered,
- (2) the depth and scope of the guidelines themselves need to be determined, and
- (3) the priority activities addressed within the guidelines need to be determined in an environment where neo-broker business models (and broker business models in general) are constantly evolving.

Therefore, the preferred choice is to confirm the high-level IOSCO recommendations already stated in the consultation report on neo-brokers.

About the other suggestions relating to cross-border information sharing and enforcement cooperation, such suggestions are adequately addressed by IOSCO's MMoU and EMMoU, which have been signed by approximately 130 regulatory authorities.

Chapter 5 – Proposed IOSCO Recommendations

Commenters to the public consultation generally supported the recommendations on neo-brokers proposed in the Consultation Report.

Particularly, four commenters agreed with the report recommendations, while two commenters stated that they agreed with the report recommendations but felt that Recommendation #4 relating to PFOF could be strengthened. Many commenters also provided suggestions and input regarding a variety of areas or issues where additional recommendations could be considered by IOSCO, such as cross border concerns, systemic risks related to operational issues, and the use of client data (see Annex 2 for further details).

IOSCO thanks the commenters for their input on the recommendations proposed in the Consultation Report, as well as for their valuable suggestions regarding additional areas where new recommendations might be considered.

Since feedback from commenters demonstrated broad support for the proposed recommendations on neo-brokers, IOSCO has decided to confirm the recommendations as presented in the Consultation Report.

IOSCO prefers to maintain the current scope of the Final Report, without including recommendations on matters that are not specific to neo-brokers and/or not directly related to conflicts of interest involving neo-brokers. At the same time, IOSCO acknowledges the significance and legitimacy of the additional areas and issues identified by commenters, which may be pursued at a future date as part of a separate follow-up initiative.

IOSCO Members should consider the following recommendations as guidance regarding the neo-brokers they regulate and should consider whether to apply these recommendations consistent with their relevant legal and regulatory framework.

- (1) **Act honestly and fairly with retail investors** – Neo-brokers should act honestly, fairly and professionally with retail investors.
- (2) **Appropriate disclosure of fees and charges to retail investors and advertising** – To the extent not already required by applicable law,

IOSCO members should consider whether neo-brokers should provide retail investors with fair, clear and simple disclosure of material charges the retail investor may incur by entering the trade. Further, IOSCO members should consider whether neo-brokers should disclose all direct and indirect material costs and fees. If neo-brokers advertise themselves as “zero trading commissions brokers” or make other similar statements, IOSCO members should further consider whether neo-brokers should enhance disclosures by disclosing to retail investors whether any of the indirect material costs or fees may be borne by the retail investors. IOSCO members should also consider whether neo-brokers should not describe their trading service as a “no cost” or “zero cost” service where the use of other firms’ services is required and those other firms’ services are paid for by the retail investors.

(3) Ancillary services – Where neo-brokers offer ancillary services to core trade execution services, IOSCO members should consider whether neo-brokers should:

- (a) disclose to retail investors the material sources of revenue the firm derives from each service and, where relevant, the type of conflicts of interest arising from them. IOSCO members should also consider whether the same disclosure should be provided where one or more of the ancillary services is/are being bundled with core trade execution services and where the use of other firm services is required.
- (b) obtain retail investor consent before providing ancillary services. Consent should also be obtained where one or more of the ancillary services is/are being bundled with core trade execution services and where the use of other firm services is required.

(4) Non-commission related trading revenue such as payment for order flow (PFOF) – IOSCO members should consider whether neo-brokers should consider the impact of PFOF on the best execution of customer orders. When considering best execution of customer orders, neo-brokers could consider, consistent with the regulatory requirements within their jurisdiction, the following aspects:

- (a) price of security,
- (b) order size,
- (c) type of security,

- (d) type of order,
- (e) trading characteristics of the security,
- (f) price improvement,
- (g) speed of execution and
- (h) probability of execution.

In doing so, IOSCO members should consider whether neo-brokers should consider (a) where publicly available, the execution quality they are currently obtaining with the execution they could obtain from competing markets; (b) maintaining records of their order routing practices and receipt of PFOF, including any modifications thereto.

Neo-brokers should consider regularly assessing whether the findings of the analysis conducted require modifications of the firms' PFOF arrangements.

- (5) IT infrastructure** – Neo-brokers should ensure they have robust systems in place to promptly address disruptions that may prevent investors from using their platform effectively.

IOSCO Members may also consider applying the above recommendations to other broker-dealers that do not fall within the definition of neo-brokers provided by this report, if they deem it appropriate due to the business model adopted by those broker-dealers.

Annex 1: List of IOSCO Members That Completed the Survey

Regulatory Authority			Jurisdiction
1	Australian Securities and Investments Commission	ASIC	Australia
2	Securities Commission of the Bahamas	SEC (Bahamas)	Bahamas
3	Canadian Investment Regulatory Organization	CIRO	Canada
4	Ontario Securities Commission	OSC	Canada (Ontario)
5	Autorité des marchés financiers	AMF (Québec)	Canada (Québec)
6	China Securities Regulatory Commission	CSRC	China
7	Autorité des marchés financiers	AMF (France)	France
8	Securities and Futures Commission	SFC	Hong Kong
9	Financial Service Agency	FSA	Japan
10	Capital Market Authority	CMA	Kuwait
11	The Dutch Authority for Financial Markets	AFM	Netherlands
12	Securities and Exchange Commission of Nigeria	SEC (Nigeria)	Nigeria
13	Komisja Nadzoru Finansowego	KNF	Poland
14	Capital Markets Authority	CMA	Saudi Arabia
15	Monetary Authority of Singapore	MAS	Singapore
16	Financial Services Commission	FSC	South Korea
17	Comisión Nacional del Mercado de Valores	CNMV	Spain
18	Securities and Futures Bureau	SFB	Taiwan
19	Capital Markets Board	CMB	Türkiye
20	Financial Conduct Authority	FCA	United Kingdom
21	Securities and Exchange Commission	U.S. SEC	United States of America
22	Financial Industry Regulatory Authority	FINRA	United States of America

Annex 2: Summary of Feedback

Number and Categories of Commenters

On March 12, 2025, IOSCO consulted on a set of recommendations and related questions regarding neo-brokers. The feedback period closed on May 12, 2025, with a total of 8 responses received from a range of stakeholders falling into these categories:

- (a) Market operator (3)
- (b) Investor advocacy organization (1)
- (c) Asset manager (1)
- (d) Industry self-regulatory organization (1)
- (e) Industry advocacy organization (1)
- (f) Securities regulator (1)

The IOSCO Board is grateful for the responses and took them into consideration when preparing the Final Report for neo-brokers. The rest of this appendix summarizes the replies received on the consultation questions.

Consultation Questions for Neo-Brokers Report

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

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

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

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

substantially from that of traditional brokers.

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

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

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

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

Commenter Feedback and IOSCO Responses

Commenter feedback received is set out in the following summary:

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

Summary of feedback:

The commenters generally expressed broad or partial agreement with the current definition of neo-brokers as set out in the report. One commenter expressed full agreement. Most commenters were in broad or partial agreement and offered suggestions for an expanded or enhanced definition, with one commenter suggesting significant expansion. None of the commenters opposed the definition outright. A dissenting opinion was provided by two commenters, who questioned the current definition's capacity to accommodate business models which had both physical branches and app-based investment services.

Three of the eight commenters suggested that the definition should be 'future proofed' to allow for evolving business models and additional asset classes. In the case of one commenter, the suggestion was advanced that the definition should consider evolving frameworks for crypto assets, as well as global standards and principles (such as those already being developed by IOSCO and the FSB).

Two commenters suggested amending the definition in respect of crypto assets. One of the commenters suggested that the definition should include brokers that might offer additional services in crypto asset trading, whilst another commenter suggested that the definition should acknowledge the difference between neo-brokers in general and crypto / digital asset exchanges.

Five commenters commented on the definition of neo-broker activities being '*limited to providing only execution services*'. One commenter suggested that the definition may become too rigid, potentially requiring future alterations to the definition. This view was also held by another commenter who stated that the definition should not be overly narrow and should encompass the evolving nature of these business models.

One commenter opined that online-only execution services, and the absence of physical operating branches, are not exclusive to neo-brokers. This commenter further elaborated by saying that traditional branch-based bank networks were also developing their digital offerings and, as such, neo-brokers should not be considered a distinct category requiring differentiated regulatory treatment.

Two commenters noted that a key characteristic of neo-brokers is the combination of how investment services are accessed, monetised and experienced by retail investors, particularly the use of PFOF.

IOSCO's response

For the purposes of its Consultation Report, IOSCO defined neo-brokers “(...) as a subset of brokers, characterised by providing online-only investment services and by the absence of physical operating branches, thereby using technology to facilitate those services and access to financial markets. In addition, neo-brokers are limited to providing only execution services, with very limited or no human interaction with the retail investors that use the services” . Having considered the submissions to the consultation, IOSCO has amended the definition of neo-brokers set out in the consultation report slightly. Specifically, IOSCO has amended the definition as follows:

“For purposes of this report, the term “neo-brokers” is intended to refer to brokers that provide services through a business model characterised by their engaging client interfaces and/or leverage of social media, providing online-only investment services and, typically, doing so with limited or no human interaction. In addition, neo-brokers are limited to providing only trade execution services, while generating revenues from a variety of implicit and explicit fees and charges.”

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

Summary of feedback:

Six of the eight commenters agreed with the proposed characteristics of the neo-brokers' business model. Two commenters did not specify whether they agreed or not.

Of the six commenters that agreed with the proposed characteristics of neo-brokers, four commenters expressed the view that neo-brokers differ fundamentally in their remuneration structures, investor engagement strategies (i.e., DEPs), digital interfaces, target audience, and business models.

Some of these six commenters also highlighted other features, and the related concerns, that in their view distinguished neo-brokers from other brokers. Specifically, one commenter indicated that neo-brokers were successful because of features such as mobile-first, engaging interface, and

offering fractional shares. However, other commenters focused on the use of a single or limited market maker venues, which could raise concerns around best execution and competition, as well as a concern regarding not contributing to price formation.

One commenter suggested that neo-brokers are embedding a new generation of services, many of which they view as complex and go beyond the general understanding of “product complexity” (e.g., round-up investing, payment-linked trades, automated flows that mimic savings, or banking-like features). In particular, the commenter was of the view that securities lending warranted particular attention as a revenue generation service for the neo-broker.

Three commenters noted that neo-brokers’ main activities are the same as other broker-dealers, but their approach and potential conflicts of interest distinguish them from other broker-dealers in ways that would merit tailored regulation. The other commenters did not respond directly to this question.

One commenter urged caution applying neo-broker characteristics too narrowly or prescriptively in applying the same framework to crypto trading platforms or other emerging business models, as these may raise different regulatory considerations.

In connection with their comments on the characteristics of neo-brokers, several commenters raised concerns with those key characteristics.

One commenter suggested that some neo-brokers have introduced improved transparency practices compared to traditional players. However, the same commenter also raised concerns about oversimplification, not just in pricing but also in incomplete trading information. For example, investors being unaware of the share class they are purchasing or that the trading currency may differ from the underlying asset denomination.

Three commenters raised concerns about potential conflicts of interest and the lack of transparency surrounding neo-broker revenue models, particularly those that rely on PFOF, and commercial arrangements with product issuers. The commenters stated their opinion that these practices may compromise any obligation of the neo-broker to act in clients’ best interests, especially when they result in investors being steered toward products or trading venues that ultimately serve the broker’s financial interests. These commenters noted that these indirect revenue streams often come with hidden information and costs to investors, such as wide bid-ask spreads, FX conversion fees, and securities lending risks.

Two commenters shared the concerns that DEPs may encourage frequent, speculative trading among inexperienced retail investors. They held concerns that DEPs can exploit behavioural biases, such as the fear of missing out. The commenters were particularly concerned about younger

investors, who are often the target audience of neo-brokers, and may lack the financial literacy to assess risks effectively.

The use of influencers and social media to promote products was also flagged as problematic by two commenters. These commenters encouraged regulators to ensure that firms take responsibility for content shared by affiliated influencers. One of the two commenters noted that a further consideration was necessary given users' inexperience, gamification, and fear of missing out with the more aggressive behaviour of young investors entering the capital market.

One commenter questioned the long-term sustainability of the neo-broker business model, particularly its reliance on alternative revenue streams and rapid user growth. The commenter suggested that the model could present broader systemic risks if left unchecked.

One commenter thought it was important to view the increase in interest in using digital brokerage platforms, including neo-brokers, within the broader context of an increase in retail investing. The commenter highlighted the growth in retail participation in the U.S., Europe, and Japan. The commenter suggested that factors contributed to retail investor participation include the socioeconomic events surrounding the global pandemic of 2020 (stay-at-home measures, higher savings rates, elevated stock market volatility); rise of digital consumer economy facilitating growth of online platforms that have lowered barriers to retail investing; intense competition which has lowered trading commissions, custody charges and other fees; innovation in fractional trading; evolution of communication technology; and in Japan, changes to regulatory frameworks for investment accounts.

IOSCO's response

Considering that most commenters agreed with the typical aspects of a neo-broker's business model, IOSCO did not add any other characteristics. Commenters highlighted different aspects of neo-broker's business model that they believed merited specific focus and evaluation relative to other broker-dealers.

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

Summary of feedback

Expanding Services

Two commenters note neo-broker services are expanding and diversifying to include services such as robo-advisory, portfolio management, lending,

payment-linked investing, recurring micro-investments, and fractional share arrangements. One of the two commenters noted their view that there has been a shift to hybrid models—blending brokerage, banking, and payments—representing a significant shift from traditional models and these hybrid models not sufficiently discussed in the IOSCO report. The commenter stated that these so-called “ancillary services” are now central to the investor experience, embedding financial products into everyday tools like interest-bearing wallets or save-and-invest features. This commenter stated that ancillary services can introduce risks such as cost opacity, cross-selling practices, and potential conflicts of interest. The other commenter was of the view that clear and transparent communication, regular knowledge checks and appropriate education support are necessary to ensure retail investors are informed on the risks of investing.

Crypto Exchanges May Fall Under Neo-Broker Definition

One commenter highlighted their view that crypto exchanges, which may fall under IOSCO’s broad definition of neo-brokers, are increasingly offering services, such as staking, yield-bearing products, proprietary tokens, and internal liquidity. This commenter stated that these activities demand a tailored regulatory approach that reflects the unique nature of crypto markets.

Gamification and Social Media

Another commenter stressed the need for further exploration of the intersection between gamification and social media, particularly in light of their belief that these mechanisms exploit fear of missing out among young and inexperienced investors. The commenter noted that these behaviours are not inherently caused by neo-brokers but are amplified by their digital business models, which cater to this demographic.

Artificial Intelligence

A commenter raised concerns over the use of artificial intelligence (AI) by neo-brokers to offer investment recommendations. The commenter stated that while AI has the potential to democratize access to markets, it also introduces risks of inaccurate or misleading advice, particularly when consumed by uninformed retail investors without adequate regulatory oversight. The commenter noted that while neo-brokers may use different subsets of arising technologies to get the attention of new investors, the use of AI must be considered in the regulation approach for neo-brokers and other similar online platforms.

Consultation Report Provides a Comprehensive Overview

One commenter was of the view that the current consultation report provides a comprehensive overview of the key activities undertaken by neo-brokers.

IOSCO's response

IOSCO did not add any other characteristics as commenters did not identify different activities not specified in the Report.

IOSCO acknowledges the comments on crypto assets, gamification and social media, and artificial intelligence. These aspects do not raise risks unique to neo-brokers and are addressed in other reports of IOSCO, including:

- [Digital Engagement Practices \(DEPs\): Final Report](#), published in May 2025;
- [Policy Recommendations for Crypto and Digital Asset Markets: Final Report](#), published in November 2023;
- [The use of artificial intelligence and machine learning by market intermediaries and asset managers: Final Report](#), published September 2021; and
- [Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges: Consultation Report](#), published in March 2025.

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

Summary of feedback

Differentiating Feature between Neo-Brokers and Traditional Broker-Dealers

All commenters agreed that neo-brokers have business models that differ significantly from other brokers. However, the commenters differed on the features that made neo-brokers different from other brokers.

In particular, three commenters indicated their view that the distinguishing factor of neo-brokers is the online-only aspect (i.e., lack of human contact, offline, physical or over the phone support). However, a fourth commenter disagreed and noted that digital-first approach and focus on a specific demographic is not unique to neo-brokers, with traditional firms increasingly adopting similar strategies.

One commenter was of the view that the execution-only model was the distinguishing factor.

Three commenters were of the view that the focus of a younger audience or retail investors aimed at lower investment amounts, lower costs and higher engagement, resulting in a more compact and gamified structure, leveraging technology to provide greater convenience and ease of access was a distinguishing factor. As noted above, one commenter disagreed that

the focus on younger investors was a differentiating feature, noting that other broker-dealers are increasingly adopting a similar focus.

Two commenters were of the view that the zero commission/low fees and dependence on other revenue is a difference. Another commenter raised a similar view that the indirect revenue streams and the associated potential for conflicts of interest and impacts on order routing transparency was a key differentiating factor.

Moreover, two commenters disagreed on the use of a limited number of market-maker venues being a distinguishing factor. One commenter suggested that using limited trading venues is shared by all brokers that engage in bilateral execution. In contrast, the other commenter suggested that the emergence of vertically integrated single market maker where affiliated brokers direct orders to affiliated venues was a distinguishing factor because they represent a significant departure from the traditional broker-dealer model.

One commenter cited the limited services provided by the neo-brokers as a reason.

One commenter was of the view that the fractional asset trading was a defining characteristic.

One commenter also viewed the onboarding and appropriateness process to be a difference, with neo-brokers relying on simplified questionnaires or status warnings, and limited adjustments to the complexity of services offered.

One commenter was of the view that the differences in neo-broker business models, especially crypto firms, that offer opportunities to enhance market access, transparency and operational efficiency (such as operating 24/7, built on the blockchain, use of automated market makers, and integration of custody/trading/token issuances) were the key reasons to differentiate them from other broker-dealers. The commenter indicated that these differentiators may require a regulatory approach that is both technologically informed and innovation friendly.

Two commenters noted traditional broker-dealers typically offer better data and personalization as well as more comprehensive services, including financial advice, portfolio management, and research insights, often targeting institutional and high-net-worth clients. One commenter noted that traditional brokers may charge explicit commissions or advisory fees as a core part of their business model and serve a wider range of client types, including clients with more complex investment needs.

Regulatory Arbitrage

One commenter suggested that the regulatory framework should address the different characteristics of the traditional broker-dealer model and neo-brokers, without promoting regulatory arbitrage. The commenter was of the view that neo-brokers should also comply with market integrity and gatekeeper rules. This commenter expressed the view that the challenge is to provide a fair and equitable regulatory framework without discouraging innovation.

Low-Cost Trading Models

Two commenters suggested that the indirect monetization model of neo-brokers as a potential source of conflicts of interest, especially when brokers route client orders to affiliated venues, limiting competition and transparency.

Vertical Integration

Two commenters emphasized their view of the growing vertical integration in the neo-broker space, where a single platform may combine brokerage, custody, trading, and issuance of financial instruments or digital assets. One of the two commenters noted that these models create efficiencies but may blur liability chains, obscure costs, and create conflicts of interest that are not well addressed by traditional regulatory frameworks.

Innovation

One commenter indicated that neo-brokers' online platforms have enabled features such as fractional investing, gamified interfaces, and simplified, questionnaire-based onboarding. While this enhances accessibility and user engagement, the commenter was of the view that it also raises concerns around price transparency, execution quality, custody structures, and ownership rights, particularly when investing in fractional shares. The commenter noted that fractional investing is structured through contractual or synthetic instruments, and that many neo-brokers do not provide full legal ownership of securities. This can affect voting rights and dividend entitlements and may rely on omnibus accounts that restrict investor-level engagement.

IOSCO's response

Although commenters were of the view that there are characteristics of neo-brokers that distinguish them from other brokers, while disagreeing on which characteristics made the business model of neo-brokers substantially different from that of other brokers, most commenters were of the view that neo-brokers are different from other brokers in their use of technology (e.g., online platform and technology for user experience) that focus on younger retail investors and in their reliance on indirect fees (e.g., PFOF or fees on non-trading services). IOSCO made minor modifications to the definition of neo-broker to better reflect those specific aspects.

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

Summary of feedback

Benefits and risks

All commenters generally agreed with the envisaged potential benefits and risks cited in the Consultation Report; however, some commenters cited certain additional neo-broker benefits and risks as follows:

- One commenter cited additional potential benefits associated with the no or low trade commission feature commonly offered by neo-brokers as being cost effective trading and democratized investing.
- One commenter cited as additional potential risks:
 - o behavioural impact of neo-broker platform design (i.e. DEPs),
 - o transparency of fees/charges being incurred by neo-broker clients
 - o risks associated with fractional trading
- One commenter cited as additional potential risks:
 - o dealer-specific operational risk as neo-brokers are defined as “on digital platforms with little or no human interaction and often do not have physical offices”
 - o neo-broker relationships with social media platforms as potentially creating the risk of artificial market conditions (i.e. GameStop) amongst neo-broker clients
- One commenter cited additional PFOF-specific potential issues/risks including:
 - o “underlying market structure issues and risks previously associated with traditional PFOF”
 - o Potential risks associated with “single market maker models with affiliated brokers”
- One commenter, while not cited as an additional potential risk, stated that more frequent client trading “[a feature of neo broker clients]... could lead to increased bid / ask spread costs...”.
- One commenter cited the offering of complex and risky products as an additional potential risk.

Do these benefits and risks apply to broker-dealers in general?

Three commenters stated that the potential benefits and risks are the same for all dealers that engage in the same activities, irrespective of whether they are categorized as neo-brokers. The remaining commenters did not express a view on this question.

Does the existing regulatory framework sufficiently address neo-broker risks?

One commenter stated that the existing regulatory framework sufficiently addressed neo-broker risks.

Four commenters suggested that there may be a need to enhance the existing regulatory framework to address unique neo-broker business model risks; these commenters varied in their views as to how to enhance the existing regulatory framework as:

- One commenter suggested that principles-based rules be adopted “... to adapt to constant technological advances while still providing adequate responses to emerging risks”
- Other commenters suggested more prescriptive specific rule requirements be adopted to address the following potential risks:
 - o PFOF-specific risks
 - o Risks associated with the possibility of aggressive neo-broker marketing and the targeting of less sophisticated investors
 - o Conduct risk associated with the provision of more highly automated service offerings

The remaining commenters did not express a view on this question.

IOSCO's response

IOSCO thanks the commenters for their suggestions regarding additional neo-broker business model potential risks and benefits that should be considered.

The suggestions pointing to additional potential risks associated with the following neo-broker activities have not been incorporated in the Final Report because they are or may be the subject of separate IOSCO work or they are matters that are not unique to neo-brokers:

- offering of crypto assets (separate IOSCO report)
- digital engagement practices (separate IOSCO report)
- fractional trading (potential separate IOSCO project)
- transparency of fees/charges being incurred by neo-broker clients (matter that is not unique to neo-brokers)
- offering of complex and risk products (matter that is not unique to neo-brokers)

Also, as it was not the intent of this report to analyse market structure / integrity matters or related risks, IOSCO has also not incorporated the suggestions to address the following suggested additional neo-broker potential risks:

- the risk that neo-broker relationships with social media platforms create artificial market conditions amongst neo-broker clients
- PFOF-related risks

Risks that have been incorporated into the Final Report are:

- the elevated operational risk that neo-brokers may have as they commonly rely on digital platforms with little or no human interaction to provide services to clients and often do not have physical offices, and
- the conflicts of interest associated with the use of a limited number of trading venues

IOSCO has also included language with the Final Report to incorporate the observation made by several commenters that the neo-broker business model and activities continue to evolve.

Finally, IOSCO has included within the report a summary of the commenters' views regarding the sufficiency of the existing regulatory framework for addressing neo-broker potential risks.

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

Summary of feedback

Specific conflict of interest examples cited with the response

One commenter cited a need to perform "structured conflict [of interest] mapping for digital engagement features". This same commenter also cited a need to have in place "safeguards around product placement and promotional influence"

Two commenters cited neo-broker compensation-related potential conflicts of interest collectively.

Three commenters cited potential conflicts of interest relating to PFOF.

Two commenters cited potential conflicts of interest associated with DEPs.

Three commenters did not cite any examples of potential conflicts of interest relating to the neo-broker business model,

Recommended approach to addressing each conflict of interest cited and/or general recommended rule enhancements

One commenter recommended the adoption of specific conflict of interest management measures, some of which would apply to conflicts of interest

more generally (e.g., disclosure) and others of which relate to matters addressed in other IOSCO reports (e.g., DEPs); one unique recommendation related to putting in place “safeguards around product placement and promotional influence”.

One commenter recommended a general approach to addressing potential conflicts of interest but did not specify how this would work for specific conflict of interest examples.

Two commenters had recommendations regarding the management of PFOF-related potential conflicts of interest as follows:

- one suggested a combination of greater prioritization on achieving best execution, providing comprehensive and transparent disclosure of all costs, fees and revenue streams and placing prohibitions and or stricter limitations on PFOF
- the other suggested a PFOF ban.

One commenter recommended the adoption of specific rules to “address the potential for biased order routing in single market maker models”.

One commenter recommended the adoption of several specific measures, many of which are existing regulatory framework requirements. Suggested requirements that may be new in some or all jurisdictions include: adoption of a best interest standard; a requirement to obtain client consent before using their data or behaviour to encourage trading; and a requirement to disclose of all investor fees and costs (including hidden fees and costs).

Two commenters did not provide any specific recommendations.

IOSCO’s response

IOSCO has included in the Final Report a high-level summary of the commenter conflict of interest management suggestions provided. As a number of these suggestions were to ban or limit certain activities or to impose substantial additional disclosure obligations for other activities, IOSCO has indicated that it has not included any specific recommendations regarding these suggestions at this time, since such recommendations would require further substantial analysis.

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

Summary of feedback:

- There was universal agreement among commenters that a dynamic, innovative and fast-moving segment of the financial services landscape producing new offerings rapidly, necessitates better coordination by regulators across jurisdictions.
- Commenters stated their view that, in the absence of regulatory cooperation, there is risk of creating diverging standards and regulatory arbitrage. The impact of this upon investor protection was also highlighted.
- Commenters also stated their view that the current lack of coordination by global regulators across jurisdictions was a reason for the existence of an overly burdensome and complex compliance regime.
- Commenters noted a need for aligned / harmonised or common guidelines across jurisdictions as well as gave suggestions for mutual recognition arrangements, or equivalence regimes.
- One commenter suggested a regime that encourages better assessment of execution quality and routing behaviour across different markets and the need to require competitive execution for all retail orders.
- Multiple commenters recommended information sharing among regulatory authorities and the introduction of some form of information sharing protocol.
- Commenters stated their view of a need for joint/cross-border enforcement action.
- Commenters suggested early-warning mechanisms to anticipate and address emerging risks before they become systemic and a coordination mechanism, including joint thematic reviews and enforcement alerts.

Commenters stated their views that IOSCO should promote common supervisory standards, shared disclosure benchmarks, and coordination mechanisms, including joint thematic reviews and enforcement alerts. These measures would benefit both regulators and investors, who currently face inconsistent protections depending on the broker's licensing jurisdiction.

IOSCO's response

IOSCO has included in the Final Report a high-level summary of the commenter cross-border suggestions provided, along with a mention of role of IOSCO's MMoU in enhancing cross-border cooperation amongst regulatory authorities.

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

Summary of feedback

Agreement with key report recommendations

Four commenters [a market operator, a self-regulatory organization, an industry advocacy organization and a statutory regulator] stated that they agreed with the report recommendations, while two commenters [both market operators] stated that they agreed with the report recommendations but felt that Recommendation #4 relating to PFOF should be significantly strengthened. One commenter [an asset manager] did not indicate whether they agree with the report recommendations.

Missing recommendations or significant issues, gaps or emerging risks that should be explored further

One commenter [an investor advocacy organization] stated that further work “to ensure comprehensive supervisory guidance” should be performed in the following areas:

- o providing a clearer distinction between neo-brokers and traditional brokers “not only in terms of cost structure, but also in terms of ‘operational architecture’”; operational architecture differences cited include internalized trade execution, pooled omnibus custody, and fractionalization
- o expanded focus on digital conduct and interface design
- o modernized disclosure standards
- o “the structural opacity in white-labelled execution chains and trading-as-a-service models”
- o IOSCO promotion of digital investor education and engagement.

One commenter [an industry advocacy organization] cited a few additional areas of potential focus, while another commenter [a market operator] raised cross border concerns as an additional issue to be considered.

Two commenters [a self-regulatory organization and a statutory regulator] referred to several areas where recommendations were missing but many of these areas were common to all brokers (e.g., DEPs, use of artificial intelligence); areas mentioned that are more specific to neo-brokers are:

- o “the systemic risk related to operational issues, given that neo-brokers rely on digital platforms with little or no human interaction and often do not have physical offices.”
- o the use of client data – suggested that neo-brokers must obtain prior client consent before using client data, such as securities trading information or client behaviour, to promote additional services, and such use should primarily consider the clients' best interests.

One commenter [a market operator] raised the issue of the “...regulation of single market maker models with affiliated brokers”.

Three commenters [an asset manager and two market operators] did not provide comment on this matter.

IOSCO's response

IOSCO thanks the commenters for their input on the recommendations proposed in the Consultation Report, as well as for their valuable suggestions regarding additional areas where new recommendations might be considered.

Feedback from commenters demonstrated broad support for the proposed recommendations on neo-brokers. As a result, IOSCO has decided to confirm the recommendations as presented in the Consultation Report, without amendments.

At the same time, IOSCO acknowledges the significance and legitimacy of the additional areas and issues identified by commenters. However, it prefers to maintain the current scope of the Final Report, without including recommendations on matters that are not specific to neo-brokers and/or not directly related to potential conflicts of interest involving neo-brokers.

Other areas identified by commenters would require additional work and may be pursued at a future date as part of a separate follow-up initiative.