



# IOSCO's Consultation Report on Neo-Brokers

June 2025

In recent years, technological innovation has rapidly transformed how retail investors interact with financial markets. Online trading platforms and mobile apps have reduced the barriers to market access and led to a significant increase in self-directed investing. Responding to this shift, the International Organization of Securities Commissions (IOSCO) launched initiatives to understand and address emerging risks associated with retail trading.

Among its efforts was the establishment of the Retail Market Conduct Task Force (RMCTF) in 2020, later evolved into the Retail Investor Coordination Group (RICG) in 2023. This group focuses on various emerging themes such as finfluencers, copy trading, fractional assets, digital engagement practices, and neo-brokers. The present consultation report is part of IOSCO's broader agenda to enhance investor protection in a digitized retail trading environment.

The report aims to define and explore the business models of neo-brokers, identify associated risks, analyze regulatory challenges, and offer policy recommendations. It draws upon a global survey among IOSCO members and aims to facilitate public consultation and cross-jurisdictional dialogue. This consultation report, published in March 2025, invited industry participants to submit their comments before 12 May 2025. IOSCO will now review the feedback received for the purpose of drafting and publishing a Final Report.

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## What is a Neo-Broker?

Respuesta

Neo-brokers are defined as online-only intermediaries that facilitate the execution of trades without physical branches or substantial human interaction. Their platforms are characterized by intuitive user interfaces, typically via mobile apps or websites, and they often appeal to young, inexperienced investors. These types of investors usually seek easy and affordable access to financial markets and may thus be enticed by the technology-driven, low-cost proposition offered by Neo-brokers.

Neo-brokers primarily offer execution services and may include features like fractional share trading, copy trading, and access to market data. Their low or zero-commission pricing models are offset by alternative revenue streams such as Payment for Order Flow (PFOF), securities lending, and affiliate services. Business models and product offerings vary across jurisdictions, but a common emphasis lies in ease of access, reduced costs, and digital-first engagement.

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## What are the risks associated with Neo-Brokers' business models?

Respuesta

IOSCO identifies several potential risks stemming from neo-brokers' operations. These risks largely derive from their cost structures and revenue models. Key concerns include:

- **Frequent Trading Incentives:** Zero-commission models may nudge investors toward excessive trading, potentially harming their returns.
- **Ancillary Services:** Tying low-cost accounts to additional services (e.g., currency conversion, margin lending) may lead to hidden costs and conflicts of interest.
- **Indirect Revenue Streams:** Practices like PFOF may compromise execution quality if brokers

prioritize venues offering higher incentives over those offering better prices for clients.

Studies cited in the report highlight that PFOF could diminish best execution standards and that execution quality varies significantly across brokers. While some jurisdictions ban PFOF entirely, others allow it with disclosure and oversight conditions.

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### **Are costs and charges clearly disclosed to retail investors?**

Respuesta

Transparency around fees remains a significant regulatory concern. Although most jurisdictions mandate pre-trade disclosures of direct costs, disclosure of indirect fees—such as those stemming from PFOF or ancillary services—is inconsistent.

Additionally, IOSCO flags misleading advertising as an issue. For instance, some neo-brokers market themselves as “free” while relying heavily on revenue from FX conversions or hidden fees. Discrepancies in the transparency of PFOF arrangements were noted among different jurisdictions.

There is also limited regulatory reporting of revenue sources, which impedes oversight and assessment of potential conflicts of interest. IOSCO encourages regulators to improve both investor disclosures and firm-level reporting.

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### **How are complaints and enforcement actions being managed?**

Respuesta

Investor complaints about neo-brokers largely relate to technical and operational issues – delayed trade execution, platform outages, or dividend processing errors -. Other concerns include misleading advertising, unclear cost structures, and suitability issues.

Supervision of neo-brokers generally aligns with that of traditional brokers. Regulatory approaches vary, with some authorities using risk-based models, thematic inspections, or technology-enabled monitoring tools. Enforcement actions have ranged from warnings to fines, particularly for transparency failures and breaches of best execution obligations.

Jurisdictions such as Australia, the Netherlands, and Spain reported specific cases where neo-brokers had to alter misleading promotions, revise compliance frameworks, or withdraw certain products.

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### **Is there a need for stronger international cooperation?**

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Given that neo-brokers operate exclusively online, cross-border challenges are amplified. Regulatory oversight is complicated by varying local standards, especially when firms operate across jurisdictions without physical presence.

While many regulators have yet to rely heavily on international cooperation, IOSCO encourages greater use of existing tools such as the Multilateral Memorandum of Understanding (MMoU). Common Supervisory Actions (CSAs) within the European Union are already addressing cross-border issues like cost disclosures and marketing practices. There is a growing consensus that enhanced global coordination is necessary, especially regarding data sharing and harmonized supervision.

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### **What are IOSCO’s Recommendations for regulators and market intermediaries?**

Respuesta

The report concludes with a set of non-binding recommendations aimed at reinforcing investor protection in the context of neo-brokers:

1. **Fair Conduct:** Neo-brokers should operate honestly and fairly toward retail clients.
2. **Transparent Fees:** Full and clear disclosure of all direct and indirect costs is essential.
3. **Transparency and consent for Ancillary Services:** Investors should be fully informed about the sources of revenue the firm derives from each service and, where relevant, the type of conflicts of interest arising from them. Firms should seek an investor's consent before offering ancillary services.
4. **Assessment of PFOF Impact:** Brokers should analyze whether PFOF arrangements affect execution quality and disclose any conflicts of interest.
5. **Robust IT Systems:** Platforms must be equipped to handle disruptions and protect investor access.

These guidelines may also be extended to other broker-dealers whose business models resemble those of neo-brokers.

**Link of interest:**

[IOSCO's Consultation Report on Neo-Brokers](#)