



Neo-brokers

CONSULTATION REPORT

The Board of the
International Organization of Securities Commissions

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Foreword

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

How to Submit Comments

Comments may be submitted through the following survey:

https://qualtricsxmrvpp5bdqs.qualtrics.com/jfe/form/SV_e3F3jDp1GoAL72m - on or before 2025 May 12.

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

If you require technical assistance on completing the survey, please contact:
itsupport@iosco.org

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

QUESTIONS FOR CONSULTATION

A complete list of the questions for consultation is provided below. IOSCO invites comments generally on the proposed guidance in this report, as well as views regarding the specific consultation questions listed below and set out in the report. The consultation questions are intended to solicit very targeted points of feedback that will be helpful to consideration of the final guidance, with supporting details where requested or relevant.

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

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.
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.
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.
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.

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1. Introduction

1.1 IOSCO's initiative on Retail Investor Protection

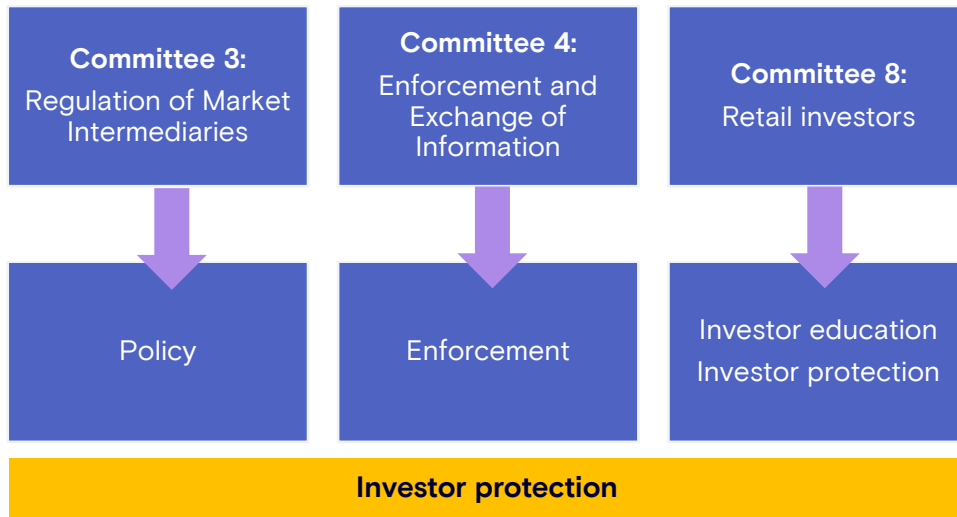
Technological developments are changing the way in which retail investors interact with financial services and products and act as a catalyst in bringing more retail investors to capital markets. The emergence of online trading platforms and mobile trading apps have made trading and stock markets more 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.¹

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.

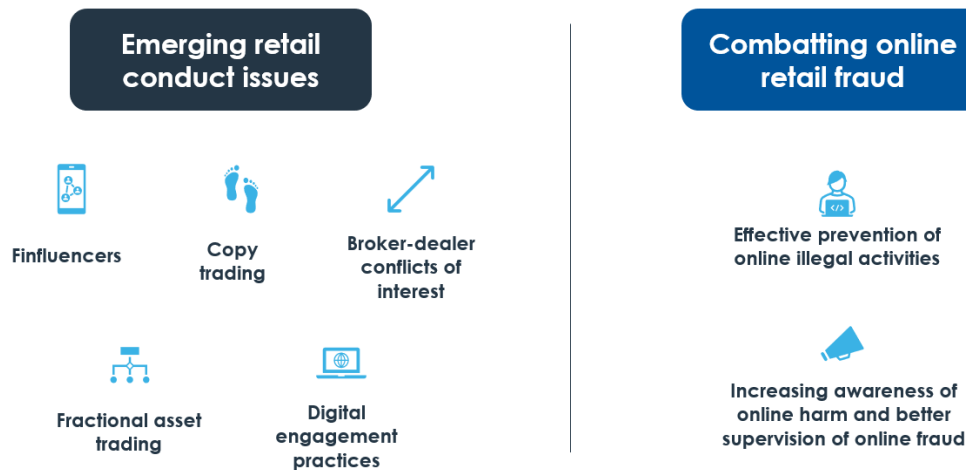
¹ See International Organization of Securities Commissions, "Retail Market Conduct Task Force Final Report", March 2023, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD730.pdf>, page 5



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) neo-brokers; (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.² The deliverables of the two sub-areas are various enforcement tools to help regulators proactively combat online harm and fraud.

² 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 Consultation Report

This report on neo-brokers is the result of the abovementioned workstream on “Broker-dealers conflicts of interest”. For purposes of this report, **neo-brokers are defined as a subset of brokers, characterised by providing online-only investment services³ and by the absence of physical operating branches, thereby using technology to facilitate those services and access to financial markets.⁴ 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.**

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 scrutiny.

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. The report then sets out a list of potential recommendations provided as guidance.**

³ ESMA TRV Risk Analysis: Neo-brokers in the EU: developments, benefits and risks, July 2024.

⁴ [Kanzlei-herfurtner.com/neo-brokers](https://kanzlei-herfurtner.com/neo-brokers)

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. It is set out as follows: Chapter 2 delves into regulators' experience neo-brokerage activities, including neo-brokers' business models, remuneration schemes and potential conflicts of interest, including those stemming from PFOF practices. Chapter 3 examines regulators' experience with PFOF practices of neo-brokers, including disparities between where PFOF is received from exchanges versus market makers, related potential conflicts of interest, the international regulatory landscape, supervision, and impact on market structure. 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.

2. Neo-brokerage Business Model

2.1 Overview of neo-brokers

As mentioned above, for purposes of this report, neo-brokers are defined as a subset of brokers,⁵ characterised by providing online-only execution 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.

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.⁶

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

Survey respondents stated that neo-brokers give retail investors access to user-friendly mobile apps and/or internet sites that enable the timely execution of trades⁷ or facilitate investing in small amounts by offering trading in fractional shares.⁸ A few regulators⁹ have suggested that neo-brokers may also offer contracts for difference (CFDs) and trading in crypto assets. Some of these apps and sites may also give investors access to other services that are marketed to:

⁵ This report does not provide a definition of 'broker'. Each jurisdiction must therefore refer to the national or regional definition of 'broker'.

⁶ ([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.

⁷ 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.

⁸ 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.

⁹ AMF France, ASIC Australia, CNMV Spain, FCA UK.

- assist the investor in making investment decisions, such as access to self-service research and analytical tools,¹⁰ market-related news, copy trading;¹¹ and investor chat forums;¹²
- facilitate the execution of trades, such as foreign currency conversion,¹³ and margin lending;¹⁴ or
- offer investors additional services relating to the holding of investor assets at the neo-broker, such as participating in a fully paid securities lending program¹⁵ and the payment of interest on retail investor free credit cash balances.¹⁶

The neo-broker landscape nevertheless varies across jurisdictions. Many jurisdictions have indicated that there are relatively few neo-brokers in operation in their jurisdiction. For example, 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 the United States.¹⁷ Further, neo-brokers do not operate in jurisdictions like the Bahamas, Saudi Arabia, and Taiwan but appear to be reaching a small retail investor base in jurisdictions.¹⁸ 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.

¹⁰ Access to self-serve research and analytical tools was noted as a service offered in Australia and Japan.

¹¹ Access to copy trading services was noted as a service offered in the Netherlands and Spain.

¹² Access to investor chat forums was noted as a service offered in France.

¹³ Foreign currency conversion was mentioned as a service offered in Australia, Canada, the Netherlands and Spain.

¹⁴ Margin lending was noted as a service offered in Canada and the Netherlands.

¹⁵ Fully paid securities lending was mentioned as a service offered in Australia, Canada, France, and the Netherlands.

¹⁶ The payment of interest on retail investor free credit cash balances was mentioned as a service offered in Canada and the Netherlands.

¹⁷ U.S. SEC and FINRA. 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.

¹⁸ 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 Neo-brokers' business models, services and products offerings

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

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.

2.2.2 Revenue Generation/Remuneration

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

- receive little to no commissions for each retail investor trade;
- depend more on other sources of trading revenue, such as PFOF; and
- 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 survey respondents as being received by neo-brokers¹⁹ include: (1) PFOF;²⁰ (2) revenues neo-brokers receive from affiliated investment advisers;²¹ (3) interest earned on margin loans and cash deposits;²² (4) income generated from securities lending,²³ and (5) reduced trading fees charged by foreign executing brokers who are benefitting from PFOF.²⁴ AFM/NED reported some neo-brokers' subscription models that were based on a monthly fee where all trading commissions are included.

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

¹⁹ Respondents 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.

²⁰ CAN/CIRO

²¹ This is a revenue source experienced in the United States for brokerages generally.

²² This is a revenue source experienced in the United States for brokerages generally.

²³ This is a revenue source experienced in the United States for brokers generally.

²⁴ AUS/ASIC

financial markets.²⁵ 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 traditional 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 on the basis of 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 BaFin²⁶, 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 which can be exploited.

Respondents 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 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.²⁷ Of note, 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.²⁸

Consultation 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?

²⁵ Junior Management Science (JUMS) [ISSN:] 2942-1861 [Volume:] 7 [Issue:] 5 [Year:] 2022 [Pages:] 1375-1399

²⁶ See [BaFin - Expert Articles - The promises neo-brokers make - and the ones they keep](#)

²⁷ Australia, Canada, Japan, Spain and the United Kingdom all indicated that trading in domestic and/or foreign shares and exchange traded funds was offered.

Consultation 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.

Consultation 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.

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 “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 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 ²⁹ by survey respondents ³⁰ include: <ul style="list-style-type: none">• Reducing or eliminating trading commissions;• Offering free shares, cash rebates, and refer-a-friend programs;• Providing access to ‘premium’ tools and data;• Facilitating trading in fractional shares;• Running promotional contests or games;• Social media marketing;• Remuneration for invested cash; and• Sponsoring sporting events and teams. |

²⁹ 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.

³⁰ The promotional activities noted varied across survey respondents, and certain of these activities may be prohibited in certain jurisdictions.

Some regulators who responded to the survey noted that collaboration between neo-brokers and finfluencers has become widespread across their jurisdictions.³¹

IOSCO has released a separate report on the activities of finfluencers, which are therefore not the subject of this report.

³¹ NED/AFM, FRA/AMF, ESP/CNMV, HK/SFC, POL/KNF.

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 shared with retail investors, notably as it relates to material fees and other charges that may be charged. This chapter provides an overview of these potential risks.

3.1 Potential risks arising from the cost structure of neo-brokers

Respondents 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:

- **trade more frequently**, compensating for the lower or lack of commissions earned per trade;
- **utilize ancillary services** related to the trading or holding of assets, such as margin loans;
- **use other firm services** to execute the trade (such as foreign exchange services); and/or
- **engage in trading activities that generate other sources of revenue for the broker, such as:**
 - entering into trades that will be routed to markets providing payment for order flow (PFOF) and/or market makers that can compensate neo-brokers by providing them with market data; and/or
 - 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 studies³² 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

³² Shefrin & Statman 1985; Barber & Odean, 2000; Barber & Odean, 2013; Gargano & Rossi, 2018

performance is the higher trading fees that are borne by the investor who trades more frequently.

Nevertheless, even with low or no trading fees, 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

Respondents 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 which 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 ancillary service has been observed.

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

3.1.3 Indirect trading revenue

Respondents indicated that neo-brokers' low or zero commission structure may incentivize the receipt of indirect trading revenue, which introduces 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. It 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.

Consultation 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.

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.

PFOF generally occurs in two forms:

- **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 orders (e.g., limit orders) are paid a rebate by the exchange while market orders 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, which are considered rules of an exchange.³³
- **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.³⁴ 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.

³³ 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 Exchange Act which requires an exchange to post and maintain a current and complete version of its rules.

³⁴ In the United States, most "market makers" meet the definition of a "dealer" under the 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".

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. Investor may also suffer from wider bid-ask spreads or reduced-price improvements.³⁵

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.³⁶ Another respondent noted that the adoption of PFOF does not necessarily affect best execution for retail investors, in cases where there is an explicit instruction by the retail investor to transmit the order to a specific institution or market.³⁷ Studies by the Dutch AFM³⁸ and the Spain CNMV³⁹ 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.⁴⁰

The regulatory landscape for PFOF

IOSCO's survey to its members indicates that regulatory approaches to PFOF vary significantly across jurisdictions. Nine of the 19 jurisdictions surveyed do not permit PFOF,⁴¹ citing concerns over conflicts of interest and execution quality.

³⁵ For some jurisdictions – such as those of the European Union – the PFOF practice must also comply with the rules on inducements.

³⁶ KNF Poland

³⁷ CMB Turkiye

³⁸ 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>>.

³⁹ [Analisís PFOF.pdf \(cnmv.es\)](#)

⁴⁰ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4189239 (see para A.2, form page 2 to page 6)

⁴¹ 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

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.⁴² 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, including quarterly reports detailing aggregate payments, transaction fees, and rebates.⁴³ Data received on the US market for Q1 2022 shows that the six largest wholesalers collectively paid retail brokers \$235 million in PFOF for orders in stocks and this amount was received almost entirely by four broker-dealers.⁴⁴

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 own trading activities 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.

30 June 2026. In Australia, Canada and the United Kingdom, the ban affects domestic listed stocks, while foreign-listed stocks remain unaffected.

⁴² Türkiye, Saudi Arabia, Bahamas, France, Hong Kong, Spain, Nigeria, Japan, South Korea, and the United States.

⁴³ PFOF arrangements must be disclosed under several 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 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.

⁴⁴ Specifically, based on the US 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 marketable orders of retail brokers routed to wholesalers in the first quarter of 2022.

Consultation 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.

3.2 Potential lack of transparency about information related to costs, charges and fees

These practices have the potential to contribute to a lack of transparency on the costs charged to retail investors and, where information is disclosed, it may not always be sufficiently clear to investors.

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.⁴⁵ However, some of these survey respondents, 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:

- 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
- in some jurisdictions there are specific requirements on all broker-dealers (thus including neo-brokers) to disclose:
 - the direct trading charge components to the retail investor on a pre-trade basis⁴⁶;

⁴⁵ 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, including certain examples of how the firm makes money and the incentives those examples create. See Form CRS Item Instruction 3.B.(ii).

⁴⁶ 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.

- the direct trading charge components to the retail investor in the trade confirmation relating to the trade⁴⁷ and
- the indirect charge components (including indirect trading charges) to the retail investor on an annual basis.⁴⁸

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

- that regulators should consider a consistent method for neo-brokers disclosing foreign exchange charges and inducements for instant settlement, which may charge higher fees. Certain survey respondents also noted that foreign exchange charges account for a large proportion of revenue for many neo-brokers in their jurisdictions.⁴⁹
- that regulators could assess whether the neo-broker advertising of commission-free trading is fair, clear and not misleading.
- 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

⁴⁷ 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.

⁴⁸ Indirect trading charge component disclosure is required to be provided to retail investors on an annual basis in Canada, Poland and Spain.

⁴⁹ 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.

(including neo-brokers) to disclose to their retail investors whether PFOF is received by the broker-dealer.⁵⁰ The US 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.⁵¹ FINRA Rule 6151 further requires members submit to FINRA for centralized publication the public order routing reports required under US SEC Rule 606(a).⁵²

Moreover, in the United States⁵³ 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.⁵⁴ 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.⁵⁵ Furthermore, as in the USA, in Canada⁵⁶ 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 relevant regulator as well as other constraints.⁵⁷

⁵⁰ US SEC, Rule 10b-10(a)(2)(i)(C) under the Exchange Act.

⁵¹ 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.

⁵² FINRA will also separately issue a Regulatory Notice regarding Rule 6470 (Disclosure of Order Routing Information for OTC Equity Securities), which will require members to create and submit to FINRA order routing disclosures for OTC Equity Securities.

⁵³ In USA, refer to Rule 19b-4(m) under the Exchange Act.

⁵⁴ E.g. Hong Kong, Bahamas, and Türkiye.

⁵⁵ France, Bahamas; Türkiye, and Spain.

⁵⁶ 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.

⁵⁷ 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.

3.2.2 Disclosures 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.⁵⁸

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 US SEC noted that all exchange fees and rebates are filed with the SEC via public filings.⁵⁹ Canada [AMF (Québec), CRO and OSC] noted that these fee models must be disclosed and approved by the Canadian Securities Administrators jurisdiction with oversight responsibilities for that trading.⁶⁰ 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.

⁵⁸ NED/AFM, FRA/AMF, AUS/ASIC, ESP/CNMV, HK/SFC, JAPAN/FSA, US/NFA (solely with respect to NFA members).

⁵⁹ 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.

⁶⁰ 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.

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 received thus far are related to malfunctions of the IT infrastructure or to operational matters. Among these, jurisdictions highlighted:

- Problems when processing dividends from foreign shares;⁶¹
- Difficulties in transferring holdings between brokers, or holdings not appearing in account;⁶²
- Complaints regarding inability to execute orders in the US markets;⁶³
- Challenges with margin trading and the liquidation practices of the brokers;⁶⁴ and
- Complaints about the transaction systems or costs which were not directly related to CFD transactions⁶⁵ or complaints relating to margin calls and positions' closing.⁶⁶

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; sending retail investor data overseas without proper disclosure) and inappropriate conduct (selling inappropriate products to inexperienced investors).⁶⁷

⁶¹ AFM/NED.

⁶² ASIC/AUS.

⁶³ ASIC/AUS

⁶⁴ 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.

⁶⁵ ASIC/AUS

⁶⁶ KNF/POL

⁶⁷ ASIC/AUS

No specific complaints related to PFOF were reported by most jurisdictions who responded to the survey. In response to US SEC proposed rulemaking, the US SEC has received comment letters from the public that express concern with off-exchange PFOF generally, as well as transaction rebates offered by national securities exchanges, without implicating the practices of any broker-dealer. For example, some commenters have expressed concern that PFOF can pose a conflict of interest between a broker-dealer and its retail investor when the broker-dealer routes the retail investor's order to a trading venue for execution that can negatively impact execution quality and result in less price improvement, or that PFOF decreases competition and increases information asymmetry.

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 traditional market intermediaries. For example, in the European Union, neo-brokers, like traditional brokers, 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 – as any traditional broker-dealer – can also provide services on a reverse solicitation basis.⁶⁸ 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, supervisory actions against neo-brokers have been taken by regulators where:

- the firm has made claims that its service offering is free and has not provided sufficiently balanced information to retail investors about the charges retail investors may be required to incur;⁶⁹
- the regulator's name and logo has been misused to promote the firm's products and services;⁷⁰

⁶⁸ Intended as the practice where a retail investor initiates at its own exclusive initiative the provision of an investment service by an intermediary.

⁶⁹ 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.

⁷⁰ ASIC Australia.

- influencers have been used to promote firm products and services, giving rise to inappropriate investor trading behaviours;⁷¹
- 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;⁷²
- neo-brokers had to either strengthen the compliance function and their corporate governance;⁷³
- neo-brokers’ regulatory reporting of transactions was non-compliant.⁷⁴

TABLE 2 - Examples of Supervisory Approaches

| |
|--|
| <p>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.</p> <p>ASIC employs a combination of proactive and reactive surveillance to 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.</p> <p>The US SEC conducts periodic examinations of regulated entities (including broker-dealers”) to ensure adherence to federal securities laws, focusing on investor protection and market integrity.</p> <p>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.</p> <p>CIRO Canada conducts field examinations to assess business and trade conduct at broker-dealers generally.</p> |
|--|

⁷¹ SFC Hong Kong, CNMV Spain, AFM Netherlands, Nigeria SEC

⁷² ASIC Australia

⁷³ AFM Netherlands

⁷⁴ AFM Netherlands

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 brokerage, 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 but were not reported to substantively deviate from the types of actions taken against traditional brokers in any material way.

The violations detected and sanctioned by regulators mainly concerned:

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

In the Netherlands, the AFM generally noted criticalities in neo-brokers' compliance function, corporate governance, transaction reporting, their 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.

In relation to neo-brokers specifically, ASIC's general actions have resulted in the following outcomes since the onset of the COVID-19 pandemic in March 2020:

- Disrupting proposals to offer retail securities lending products that carry significant risks, and are inappropriate, for retail investors.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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 order⁷⁵ 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 investors in Australia.

ASIC has also entered into 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.⁷⁶ 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,⁷⁷ in the 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

⁷⁵ See [Media Release \(23-056MR\)](#) ASIC places interim stop orders on TMD and PDS for a securities lending product (9 March 2023).

⁷⁶ [24-290MR Sanlam admits to inadequate oversight of authorised representatives | ASIC](#)

⁷⁷ 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." 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.

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, 3 jurisdictions had both domestic and non-domestic operating neo-brokers, 3 regulators only had non-domestic neo-brokers, 3 had domestic neo-brokers only, and the rest were either not aware or did not provide a response.⁷⁸

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

⁷⁸ 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.

communications and advertisements of financial products, product governance rules, and cross border activities.

Consultation 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 alignment? and (3) would this coordination be different for neo-brokers than for broker-dealers in general that may operate across jurisdictions? Please explain.

5. Proposed IOSCO recommendations and list of consultation questions

IOSCO Members should consider the following recommendations as guidance regarding the neo-brokers they regulate and 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, neo-brokers should consider providing retail investors with fair, clear and simple disclosure of material charges the retail investor may incur by entering the trade. Neo-brokers should consider disclosing all direct and indirect material costs and fees. If neo-brokers advertise themselves as “zero trading commissions brokers” or make other similar statements they should consider enhancing disclosures by disclosing to retail investors whether any of the indirect material costs or fees may be borne by the retail investors. Neo-brokers should consider not describing 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, they should consider:
 - a) disclosing 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. 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) obtaining 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 PFOF** – 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 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, 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.

Consultation 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.

List of Consultation Questions

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