BlackRock.

International Organization of Securities Commissions
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RE: Consultation Report on Neo-brokers

BlackRock[1] is pleased to have the opportunity to provide feedback on the Consultation Report on Neo-brokers issued by the Board of the International Organisation of Securities Commissions (IOSCO).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this Consultation Report and will continue to contribute to the thinking of IOSCO on any issues that may assist in the final outcome of this Consultation Report.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

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

While the definition of neo-brokers as outlined in the consultation report highlights their characteristics of providing online-only execution services and the absence of physical operating branches, it is important to note that these features are not exclusive to neo-brokers. Neo-brokers typically design consumer interfaces which are easy to navigate in a mobile-first environment. Many other brokerage platforms, however which are also subject to applicable securities laws, are evolving their business models and client interfaces when operating through digital platforms to resemble those of neo-brokers. We also observe traditional branch-based bank networks building out their digital offerings with new ways to meet the financial planning needs of retail investors. Therefore, neo-brokers should not be considered a distinct category requiring differentiated regulatory treatment. Rather there should be recognition that the landscape of digital brokerage platforms is diverse and evolving, with a wide range of entities with different ownership structures offering digital services, with different levels of human interaction with retail investors.

A different angle to differentiating between neo-brokers and traditional brokers is that of differentiating between the types of products tradeable on these platforms. Certain products, such as equities and exchange-traded funds (ETFs), are traditional non-complex asset types deemed by many regulatory regimes to be suitable for mainstream retail investors. Other more complex financial instruments such as derivatives or certain exchange-traded products target more sophisticated investors. As such, digital brokerage platforms including neo-brokers will need to clearly identify these types of instruments and ensure their clients meet applicable appropriateness/suitability tests before being able to invest. This approach minimises the risk of conflating products with no inherently similar characteristics, or which are traded on a substantially different basis, and the risk that adverse outcomes from the sale of one product type may tarnish the reputation of the whole digital brokerage sector.

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?

It is 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. We see a major secular change is underway in the global investing landscape. Millions of self-directed retail investors – individual savers who allocate their own money and make their own investment decisions, typically by buying and selling securities through digital brokerage platforms including neo-brokers or in retirement accounts and tax benefit wrappers – are now participating in financial markets. Increasingly, these investors are using apps which allow them to buy and sell a wide range of financial instruments with the same level of access and efficiency – and containing many familiar features – provided by online/mobile banking. During 2020-21, 46 million new brokerage accounts were opened by individual investors in the US – an increase of nearly 80% over a two-year period. This growth means almost 105 million individual Americans – directly participate in securities markets as retail investors.

Similarly, across Europe, retail investor participation has recently reached record highs. Since 2023, 11 million new investors have emerged across the continent using digital channels, both from new platforms and traditional banks. In 2024, 34% of Europeans hold investments, marking a relative growth of 11% compared to 2023[2]. This is particularly true for the ETF market in Europe. An increasing number of private investors are turning to index-based products to build their assets. By the end of August 2024, approximately two trillion euros had been invested in ETFs, marking a 40% increase in volume compared to the end of 2023[3].

Likewise in Japan, the framework of the NISA, a tax-exempt retail investment account system, has been significantly improved, leading to a surge in new retail investors. By the end of December 2024, the number of NISA accounts had risen to 25.60 million, up from 21.25 million at the end of December 2023, marking a 21% increase[4]. A substantial portion of these investors are now utilizing digital brokerage platforms including neo-brokers.

An important aspect of this growth is reflected in the rising contribution of retail investing to overall trading flows. According to industry estimates, retail investors' share of all US equity trading went from a quarter of volumes in 2018 to a third in 2020 and peaked at over 40% in early 2021. Retail trading now accounts for nearly as much volume as US mutual funds and US hedge funds combined[5]. While the scale may differ in comparison to the US, similar trends have also emerged across Europe and Asia. We believe there are several reasons why so many individuals have recently embraced investing. Socioeconomic events surrounding the global pandemic of 2020 – notably, stay-at-home measures coupled with higher savings and elevated stock market volatility across the world – contributed to a fertile market environment for retail investors. Retail investors' growing participation in markets, however, exhibits wider structural factors which have driven growth since the end of the pandemic. The rise of a digital consumer economy has facilitated the growth of online platforms, which have significantly lowered the barriers to retail investing and attracted new generations of investors. Intense competition in this sector has also led to a reduction in fixed trading commissions, custody charges and other fees, thereby decreasing the frictions associated with retail investing and encouraging greater participation. This has made low-cost, direct investing more accessible to individuals who previously found it challenging or expensive to enter financial markets. Additionally, the innovation of fractional trading has further expanded access for retail investors with smaller asset bases. Beyond the democratizing influence of digital technology on market access, another key driver of retail participation has been the continuous evolution of communication technology.

Finally, we see the emergence of many first-time investors across many different demographics who wish to invest directly in markets to achieve their financial goals. The confluence of these factors, and data that evidences durable increases in retail investor participation beyond conditions that existed during the global pandemic, suggests a sustainable trend of growing retail participation in markets.

[2] For more details, please see People & Money: The trends shaping investing in Europe (October 2024)
[3] For more details, please see The ETF Savings Plan Market in Continental Europe 2024
[4] For more details, please see Japanese FSA: Promoting Japan as a Leading Asset Management Center
[5] For more details, please see Spotlight: Towards More Transparent and Resilient Securities Markets & Financial Times, Rise of the retail army: The amateur traders transforming markets, 9th March 2021

The growth in popularity of digital brokerage platforms including neo-brokers demonstrates how the successful combination of features such as the use of a mobile-first, engaging interface and features such as fractional share dealing removes unnecessary barriers for retail investors to access markets which may been previously burdensome to access or afford.

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.

Please see answer to Question 1

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.

Please see answer to Question 1

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.

The adoption of investing through digital brokerage platforms including neo-brokers by retail investors has accelerated in recent years, along with the demand for a wide range of guidance and support tools. One of the primary advantages of digital brokerage platforms is their objective to make trading cost-effective for retail clients, democratizing investing by enabling more people to become investors. It is worth examining how these characteristics of the digital broker business model benefit retail investors as well as examining potential risks that may not be adequately contemplated by existing rules and regulations.

We highlight that the digital broker business model can be particularly beneficial to many retail investors who typically invest small amounts of funds on a periodic basis. Digital brokerage platforms including neo-brokers employ various strategies to reduce trading costs for retail investors. As with any other brokerage model it is critical to integrate best execution into the consumer delivery model. There are various ways to achieve this for end retail customers, depending on relevant regulatory constraints and market structure. These may include product manufacturers subsidizing trading costs through free-buy agreements or the use of payment for order flow (PFOF) in certain markets, provided that these do not conflict with best execution requirements. These models can help retail investors access the market at lower costs. The need to deliver best execution is at the heart of concerns related to the risk of conflicts of interest. For example, we note in the US to ensure transparency for retail investors, broker-dealers are subject to robust disclosure obligations under SEC Rule 10b-10 (the "Confirmation Rule").[6] This key investor protection

[6] For more specific details on Rule 10b-b disclosure requirements, please see SEC.gov | Confirmation of Transactions

rule requires broker-dealers to disclose specified information in writing to customers before or at the completion of a transaction, helping investors understand the details of their trades.

A significant innovation in digital brokerage platforms including neo-brokers, is the rise of fractional share trading. Traditionally, investing in shares, bonds, and ETFs required transactions in whole units. For retail investors with limited capital, this could lead to concentration risks due to restricted product choices or unfavorable timing, hindering their ability to benefit from cost-averaging. Fractional trading democratizes access to securities traded at a high nominal value by enabling investors to purchase fractions of bonds, shares, or ETFs. This model is particularly advantageous for retail investors who may not have substantial capital but still wish to diversify their portfolios and invest regularly[7].

BlackRock supports clear regulatory frameworks to support the rollout of fractional trading while maintaining high consumer protection and transparency standards. It is crucial that firms offering fractional shares adhere to the applicable standard of care required by the governing regulatory framework. Importantly, these principles should not be confined to neo-brokers alone but should guide all platforms and distribution channels offering fractional shares. We have noted an increasing focus by a number of securities regulators on promoting best practices in the use of fractional shares in the context of local securities law.[8]

The increasing popularity of savings plans that use fractional ownership of securities, like ETFs, has led to more retail investors participating in capital markets. In the EU, we have seen an increasing number of retail investors choosing index-based products to save for retirement through ETF savings plans. These plans involve regular monthly investments of a fixed amount into one or more ETFs, managed by individual investors through digital brokerage platforms including neo-brokers. Investors can start with as little as €1, without needing to buy whole units of ETFs, while having a wide range of investment options and full control over the investment period. Encouraging the use of savings plans also contributes to curtailing the risk of excessive trading. For example, in the EU we have seen that ETF savings plans investors generally aim to stay invested for up to seven years on average. In the EU, around 10.8 million trades are made on ETF savings plans each month, with small average investment amounts of about €136 per month[9]. Additionally, 75% of ETF investors across Europe are accessing ETFs via a digital brokerage platform, their bank's online investment platform, or a robo-adviser[10].

Given these developments, we note that IOSCO's assessment that low or non-existent trading fees lead to conflicts of interest should be viewed in a wider context of wider policy objectives of ensuring fair execution terms, but also facilitating the access of retail investors to securities markets. We believe that lower barriers to entry in capital markets, enable more people to become investors in the first place. Concerns regarding the costs to investors of frequent trading need to be considered in the light of regulatory requirements around best interest and best execution, and we support ongoing transparency around

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[7] For more details, please see Spotlight: Fractional Ownership and ETF Savings Plans
[8] For example, the FCA expects firms offering fractional shares to act in good faith, avoid foreseeable harm, support consumers' financial objectives, and ensure consumers understand transferability limits, execution timing, fees, voting rights, dividend income, and ownership rights. Recently, we have also seen a letter by ESMA highlighting the fragmented regulation of fractional shares across the EU, emphasizing the need for consistent classification under MiFID II/MiFIR to ensure investor protection, transparency, and regulatory coherence.
[9] For more details, please see The ETF Savings Plan Market in Continental Europe 2024
[10] For more details, please see People & Money: The trends shaping investing in Europe (October 2024)

broker execution and routing practices. In the U.S., for example, several rule amendments were introduced over the past years to improve investor experience by enhancing disclosure practices. For instance, we were supportive of the SEC amendments to Rule 605 of Regulation National Market System (NMS) which enhances the disclosures that market centers (exchanges, alternative trading systems, and certain brokers-dealers) publicly report detailing the execution quality of NMS stocks on their platform. This includes data on the share of trades with price and size improvement and the distribution of execution times for different types of transactions. Additionally, we were supportive of the SEC amendments to Rule 606 which require broker-dealers to disclose information both publicly and to their customers on their order handling and routing practices. We believe the disclosures required by both Rules 605 and 606 are a valuable source of information for investors to compare, evaluate, and select marketplaces and broker-dealers on the basis of their execution quality and order routing capabilities.

Additionally, under the SEC's Regulation Best Interest (Reg BI), broker-dealers are required to act in the best interest of their retail customers when making investment recommendations. This includes providing retail customers with clear, written disclosure that helps investors understand the scope of the advisor's services, any associated fees, and potential conflicts of interest. We believe these degrees of disclosure regarding execution, routing practices, and potential conflicts of interest would be equally beneficial for non-U.S. markets without equivalent rules. Furthermore, we support making such reporting more readily accessible for investors in a user-friendly, centralized platform, which would strengthen the objectives of promoting competition and increasing transparency.

Elsewhere we support best practices on retail order handling and reporting to ensure the implementation of best execution obligations for retail brokers. In the EU, ESMA's recent final draft technical standards[11] on specifying the criteria for establishing and assessing the effectiveness of investment firms' order execution policies provides a good example of a regulatory framework aimed at raising the bar on best execution and transparency, while leaving the necessary flexibility to firms to structure their brokerage offering.

Best Execution Practices

In our view, protecting investors and promoting market access are cornerstones of financial market regulation. This ensures the minimization of potential conflicts of interest and provides retail investors with full transparency on costs. In addition to the important disclosures we discussed above, we believe best execution has long been a crucial obligation of broker-dealers, which protects investors and ensures fair and equitable dealings where conflicts of interest may be involved.

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.**

As outlined in Question 1, we advise against attempting to differentiate between "neo-brokers" and other digital brokerage platforms. We believe that the activities, and potential

[11] For more details, please see Final Report: Technical Standards specifying the criteria for establishing and assessing the effectiveness of investment firms' order execution policies

risks posed by such activities, are not exclusive to a particular operating platform and that an attempt to formulate regulations based on an 'entity-based approach' – as opposed to an activities-based approach – would jeopardize the effectiveness of existing regimes and potentially result in superfluous, duplicative and/or un-even regulation between similarly situated firms. The approach should remain neutral, whether it involves a neo-broker or another digital brokerage platform.

We believe that a prudent regulatory approach to the rapidly changing environment for retail investors should be based on a set of core principles centered on supporting investors. The principles[12] we outline below collectively seek to deliver a market environment that is fair, efficient, and robust. We believe no single objective is sufficient by itself; they all need to be achieved collectively for an ideal outcome:

- Investor education which is consistent in approach but tailored to the needs of different cohorts to effectively empower retail investors and support their interests.
- Fair and impartial access to competitive markets for retail investors.
- An ethos of best execution at each stage of the investment process to ensure that retail investors continue to receive the most favorable terms of execution.
- Market transparency which is fundamental to building retail investors' confidence and encouraging participation over the long-term.

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.

Retail investors are increasingly attracted to innovative solutions that utilize digital technologies and communication tools, providing enhanced transparency and efficient access to opening investment accounts. A diverse market of providers caters to these investors, ranging from digital brokerage platforms including neo-brokers to traditional branch-based bank networks, which are expanding their digital offerings to better meet the financial planning needs of retail investors. This shift is driven by growing consumer demand for lower fees, personalized services, and seamless digital experiences. The wealth management industry is generally transitioning to a hybrid model that combines digital platforms with human expertise. Understanding these dynamics is essential for future regulatory measures aimed at minimizing conflicts of interest and enhancing consumer protection.

However, a globally consistent licensing/authorization approach, that offers certainty on where and in what circumstances neo-brokers may offer their services, would generally assist in providing clarity to retail customers on when and how investor protections are available; and would provide clarity to neo-brokers and their advisors on the conditions under which they are permitted to operate.

We also support regulatory efforts in Europe aimed at harmonizing markets to enhance transparency and disclosure. For instance, achieving greater uniformity and consistency in

[12] For more details, please see Spotlight: Towards More Transparent and Resilient Securities Markets: A Framework to Support Retail Investor Participation

terminology, metrics, and data reporting could facilitate the assessment of execution quality and routing behavior across different markets.

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.

In general, these recommendations should equally apply to any brokerage provider servicing retail customers as mentioned in our answer to Question 1 and should not be limited to the neo-broker business model. In particular, we would suggest reframing the recommended disclosure requirements around zero trading commission arrangements to reflect more accurately economic benefits received by the retail investors while ensuring that the retail investors is not subject to any hidden charges[13]. We highlight that these arrangements have enabled end retail investors to transact in securities such as ETFs with low / no transaction fees. This has helped generate increased investment awareness and participation in both the US and the EU. Typically, brokers are promoting and positioning the importance of long-term investing for their client base and end investors are increasingly using digital brokerage platforms including neo-brokers for long-term capital growth.

This is particularly the case for investors with less overall wealth, whose smaller contributions (e.g., tens or hundreds of EURs) are no longer eroded by commissions as a result of the subsidisation of trading costs built into zero-commission trading costs. The average EU investor in an ETF savings plan run by a brokerage platform is investing around €136 per month[14] and without this subsidy would see a significant proportion of their investment eroded by fixed fee trading commissions.

Additionally, these arrangements have catalysed interest and participation from both female and younger investors (e.g., <35) – historically underinvested demographic groups. In this context, we support product subsidies for retail investment which effectively lowers costs for the retail investor with governance to ensure that the benefits of any subsidy directly benefits end-retail investors and that there is appropriate disclosure around the nature and scope of the third-party subsidies.

[13] The final draft RTS from ESMA specifying the criteria for establishing and assessing the effectiveness of investment firms' order execution policies provide interesting perspectives on order execution policies
[14] For more details, please see The ETF Savings Plan Market in Continental Europe 2024