
*
IN THE MATTER OF: *
*
ROBINHOOD FINANCIAL LLC *
*
(CRD No. 165998) *
*
 (“Respondent”) *
*

CONSENT ORDER
No. CO-23-202024-S

I. PRELIMINARY STATEMENT

WHEREAS, the Banking Commissioner (“Commissioner”) is charged with the administration of Chapter 672a of the General Statutes of Connecticut, the Connecticut Uniform Securities Act (“Act”), and Sections 36b-31-2 to 36b-31-33, inclusive, of the Regulations of Connecticut State Agencies promulgated under the Act (“Regulations”);

WHEREAS, Respondent Robinhood Financial LLC has its principal place of business at 500 Colonial Center Parkway, Suite 100, Lake Mary, Florida 32746, and has been registered as a broker-dealer under the Act since January 27, 2014;

WHEREAS, the North American Securities Administrators Association, Inc. (“NASAA”) is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators;

WHEREAS, State securities regulators, as members of NASAA, formed a multistate task force to conduct a coordinated investigation (the “Investigation”) into Respondent’s management of its activities relating to the retail market from approximately October 1, 2019 to March 2021. The Investigation focused on platform outages, deficiencies in the supervision of options and margin trading eligibility and approval processes, deficiencies relating to Respondent’s operational structure for controls, customer service and other significant operational issues;

WHEREAS, Respondent has advised the NASAA multistate task force of its agreement to resolve the Investigation through a multistate settlement which includes this Consent Order;

WHEREAS, Respondent agrees to comply in all material respects with the undertakings specified herein;

WHEREAS, Section 36b-31(c) of the Act provides, in part, that: “To encourage uniform interpretation and administration of sections 36b-2 to 36b-33, inclusive, and effective securities regulation and enforcement, the commissioner may cooperate with the securities agencies or administrators of other states, Canadian provinces or territories . . . [and] any national or international organization of securities officials or agencies, and any governmental law enforcement or regulatory agency. The cooperation authorized by this subsection includes, but is not limited to, the following actions . . . (2) conducting joint . . . investigations; (3) sharing and exchanging information and documents subject to the restrictions of chapter 3; . . . and (5) executing joint agreements, memoranda of understanding and orders;”

WHEREAS, the Commissioner, acting pursuant to Sections 36b-31(c) and 36b-26 of the Act and through the Securities and Business Investments Division, conducted an investigation into the activities of Respondent to determine whether it had violated any provision of the Act or any regulation or order under the Act;

WHEREAS, Section 36b-27(a) of the Act authorizes the Commissioner to order any person who has violated, is violating or is about to violate any provision of the Act or any regulation, rule or order adopted or issued under the Act to cease and desist from such violation, and Section 36b-27(d) of the Act authorizes the Commissioner to impose a fine against any person who has violated any provision of the Act or any regulation, rule or order adopted or issued under the Act;

WHEREAS, Section 36b-15 of the Act authorizes the Commissioner to initiate suspension or revocation proceedings against a registrant upon a finding that one or more of the grounds specified in Section 36b-15 of the Act have been satisfied;

WHEREAS, an administrative proceeding under Sections 36b-15 and 36b-27 of the Act would constitute a “contested case” within the meaning of Section 4-166(4) of the General Statutes of Connecticut;

WHEREAS, Section 4-177(c) of the General Statutes of Connecticut and Section 36a-1-55(a) of the Regulations of Connecticut State Agencies provide that a contested case may be resolved by consent order, unless precluded by law;

WHEREAS, Section 36b-31(a) of the Act provides, in relevant part, that “[t]he commissioner may from time to time make . . . such . . . orders as are necessary to carry out the provisions of sections 36b-2 to 36b-34, inclusive”;

WHEREAS, Section 36b-31(b) of the Act provides, in relevant part, that “[n]o . . . order may be made . . . unless the commissioner finds that the action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of sections 36b-2 to 36b-34, inclusive”;

WHEREAS, Respondent, without admitting or denying the Findings of Fact and Conclusions of Law set forth below and solely for the purposes of this Consent Order, admits the jurisdiction of the Commissioner, voluntarily consents to the entry of this Consent Order, and voluntarily waives the following rights: (1) to be afforded notice and an opportunity for a hearing within the meaning of Sections 36b-15(f), 36b-27(a) and 36b-27(d)(2) of the Act and Section 4-177(a) of the General Statutes of Connecticut; (2) to present evidence and argument and to otherwise avail itself of Sections 36b-15(f),

36b-27(a) and 36b-27(d)(2) of the Act and Section 4-177c(a) of the General Statutes of Connecticut; (3) to present its position in a hearing in which it is represented by counsel; (4) to have a written record of the hearing made and a written decision issued by a hearing officer; and (5) to seek judicial review of, or otherwise challenge or contest the matters described herein, including the validity of this Consent Order;

WHEREAS, the Commissioner finds that the entry of this Consent Order is necessary or appropriate in the public interest and consistent with the purposes fairly intended by the policy and provisions of the Act;

NOW THEREFORE, the Commissioner hereby enters this Consent Order.

II. FINDINGS OF FACT

1. As part of its securities brokerage business, Respondent acquired approximately 46,450 new Connecticut customers between October 1, 2019 and March 31, 2020, for a total customer count of approximately 161,277 as of March 31, 2020.

Platform Outages

2. In December 2014, Respondent launched commission-free, self-directed trading through its mobile application to retail customers with no account minimums. Respondent's dramatic growth in customers strained the firm's platform infrastructure and its ability to properly address customer needs. In March 2020, Respondent's mobile and website platforms experienced multiple outages that had a negative impact on the customer's ability to submit orders and communicate effectively with customer support. During the outages, customers were generally not able to enter buy or sale orders, and did not have the ability to take advantage of fluctuations in security prices. Thousands of customers nationwide contacted Respondent in the three months following the March 2020 outages concerning their inability to execute transactions.
3. Since March 2020, Respondent has implemented changes to customer support and functionality of the mobile platform, some pursuant to an investigation by the Financial Industry Regulatory Authority ("FINRA") and the resulting FINRA Letter of Acceptance, Waiver, and Consent ("AWC") dated June 22, 2021 (the "FINRA AWC").

Options and Margin Approval

4. Respondent provides two types of option accounts to its customers: "Level 2" and "Level 3." The Level 2 account provides customers with the ability to trade basic option contracts, which include cash secured put and covered call contracts. The Level 3 account provides customers with the ability to participate in more advanced strategies, such as option spreads.
5. Respondent provides customers with the ability to maintain a margin account to borrow funds from Respondent to execute transactions by utilizing the cash and securities in the customer's account as collateral.
6. Respondent's customers applied for option trading and margin trading through an automated process that reviews information provided by the applicant such as account equity, employment status, liquid net worth, income, risk tolerance, investment experience, and investment objective. Respondent relied upon an algorithm that nearly instantaneously

- approved or denied the customers' option or margin trading application. Respondent did not have any designated registered principals or other staff that manually assisted in the review process for option and margin trading to verify each applicant's self-reported information.
7. Respondent's automated account approval process permitted customers who were denied option and margin trading to re-submit and be approved by utilizing different responses to the eligibility questions.
 8. In April 2020, Respondent began a monthly review of all option trading customers to identify and address inconsistencies with the information that was provided during the application process.
 9. In May 2021, Respondent began conducting a weekly inspection of its option customers to verify that proper approval for those accounts had been achieved. The inspection process included a process that identified accounts that did not fit the eligibility parameters, and those accounts were downgraded accordingly.

Operational Compliance

- a) The FINRA AWC cited numerous operational failures and a failure to maintain proper compliance systems resulting in violations of FINRA rules, including the following that violate the rules and laws within the Act:

- a. **Failure to have a reasonably designed customer identification program**

From June 2016 to November 2018, Robinhood failed to establish or maintain a customer identification program that was appropriate for the firm's size and business. The firm approved more than 5.5 million new customer accounts during that period, relying on a customer identification system that was largely automated and suffered from flaws. For example, even though Robinhood received alerts flagging certain applications as potentially fraudulent-including applications where the customer's purported Social Security number belonged to a person who was deceased-Robinhood's customer identification system 'overrode' those alerts and approved the applications without any review. In all, Robinhood approved more than 90,000 accounts from June 2016 to November 2018 that had been flagged for potential fraud without further manual review.

- b. **Failure to supervise technology critical to providing customers with core broker-dealer services**

From January 2018 to February 2021, Robinhood failed to reasonably supervise the operation and maintenance of its technology, which, as a FinTech firm, Robinhood relies upon to deliver core functions, including accepting and executing customer orders. Instead, Robinhood outsourced the operation and maintenance of its technology to its parent company, Robinhood Markets, Inc. (RHM)- which is not a FINRA member firm-without broker-dealer oversight. Robinhood experienced a series of outages and critical system failures between 2018 and late 2020, which, in turn, prevented Robinhood from providing its customers with basic broker-dealer services, such as order entry and execution.

c. . **Failure to exercise due diligence before approving options accounts**

Since Robinhood began offering option trading to customers in December 2017, the firm has failed to exercise due diligence before approving customers to trade options. Although the firm's written supervisory procedures assign registered options principals the responsibility of approving accounts for options trading, the firm, in practice, has relied on computer algorithms-known at Robinhood as 'option account approval bots'-with only limited oversight by firm principals.

d. **Failure to report all customer complaints to FINRA**

Between January 2018 and December 2020, Robinhood failed to report to FINRA tens of thousands of customer complaints that it was required to report under FINRA Rule 4530, including complaints that Robinhood provided customers with false or misleading information and that customers suffered losses as a result of the firm's outages and systems failures.

e. **Robinhood negligently misrepresented the risks associated with options spread transactions and the actions the firm would take with those positions on its customers' behalf**

From January 2018 to March 2021, Robinhood made misrepresentations and omissions of material fact about options spread transactions. First, Robinhood misstated the risk of loss associated with options spread transactions, and second, the firm provided customers with false information about the actions the firm would take as those spreads on the expiration date. As a result of these negligent misrepresentations and omissions, at least 630 customers incurred losses totaling over \$5.73 million."

Customer Support

10. From July 1, 2018, through June 30, 2020, Respondent did not establish, maintain, or enforce a reasonable supervisory system to provide customer support.
11. During the period of June 1, 2018, through June 30, 2020, Respondent was experiencing substantial customer and revenue growth, and towards the end of the period, struggled to adequately support the volume of incoming customer inquiries. This was particularly relevant following a number of firmwide platform outages.
12. Respondent's initial acknowledgements were, during the period, provided through automated email responses. Subsequent responses, provided primarily through email and chat, were sometimes delayed and not issue responsive. Respondent sometimes utilized multiple customer support agents to respond to an ongoing ticket and the responses did not always fully address the customer's concerns. Respondent's reliance on automated and bulk emails to resolve certain customer support inquiries did not always meet customers' individual needs and expectations. Respondent should have been aware, through its monitoring, that some customers were not receiving adequate customer support.
13. In December 2020, Respondent rolled out an option for phone support but continued to utilize email responses for a significant number of inquiries. Further, Respondent failed to accurately project customer service representative headcount to adequately handle customer needs in 2020.

14. Respondent did not provide customers with clear and accurate disclosures concerning certain options and margin issues. Respondent did not notify customers of long running errors involving certain account display information. In addition, Respondent did not provide customers with realistic expectations relating to its customer support capabilities, telling customers that Respondent would respond to email requests within 1-3 days, a time frame that was not always observed.
15. To date, Respondent has paid over \$87 million to compensate customers through settlements, including paying restitution as part of the FINRA AWC, by contributing to a Fair Fund related to a settlement with the U.S. Securities and Exchange Commission, and by settling a class action and other direct lawsuits.

III. REMEDIATION AND RELATED REPRESENTATIONS BY RESPONDENT

16. As part of the FINRA AWC, Respondent engaged a third-party consultant to complete a comprehensive review of Respondent's compliance with areas identified as deficient in the FINRA AWC, including Respondent's procedures for option trading account approval, and recommended modifications or supplements to Respondent's processes, controls, policies, systems, procedures, and training. Respondent undertook to provide access to any non-privileged report, exhibits, documents, or subsequent reports generated from the third-party consultant's review. The Commissioner will treat the report as a confidential investigatory record for purposes of applicable Public Record Law provisions and these reports shall not be disclosed by the Commissioner or subject to public inspection or discovery pursuant to Section 36a 21 of the Connecticut General Statutes. Respondent undertakes to provide the Commissioner with a written attestation that the firm has fully complied with the independent third-party consultant's recommendations or has otherwise maintained measures as or more effective at addressing the purpose of the recommendations within one-year of the settlement date.
17. Respondent represents that it has done substantial work to enhance its customer service program since March 2020, substantially increasing available customer service resources, including hiring additional staff and expanding the avenues for customer support. Respondent represents that its Customer Experience team now includes customer support agents, operational leaders who oversee and manage customer support on a day-to-day basis, quality control reviewers, and account security specialists.
18. Respondent represents that, in June 2021, it reorganized the customer support structure by support categories to optimize its customer support function. Support categories included Advanced Brokerage (options and margin); Core Brokerage (equities and ACATS); Customer Safety and Privacy (account information, login issues, and security operations); Accounts (onboarding, documents, taxes, data and charts, deactivation, referrals and usability); and Funding (withdrawals, deposits, and bank linking). Respondent represents that only Robinhood licensed representatives would staff the Advanced Brokerage and Core Brokerage groups.
19. Respondent represents that it now offers customers multiple methods to submit complaints, make inquiries and receive support, including email support, live 24/7 voice support, and live 24/7 chat support. More specifically, Respondent launched its voice support program in December 2020 and gradually increased its availability. By October 2021, voice support was available 24/7 for all customer support inquiries, including but not limited to inquiries

- regarding options, potential account takeovers, account restrictions, equities, margin, withdrawals, cash management, cybersecurity, fraud, bank-linking, and cryptocurrency. Respondent's 24/7 voice customer support now offers live phone support to customers 24 hours a day, seven days a week, with customers having the ability to request phone support via a call-back option in the Robinhood app or website and to receive a notification when they are next in line for a call. Respondent represents that it has an internal target of calling customers within 30 minutes after a customer request has been submitted. Respondent also represents that, in July 2022, it added 24/7 chat support for all customer support inquiries.
20. Respondent represents that it currently tracks a number of metrics regarding customer response times and focuses on median response time and a metric called "P85 response time" which is the time it takes to respond to 85% of support requests. Notably, for customers requesting voice support, although not required by regulation, Respondent has consistently met its target of calling customers back within 30 minutes. Robinhood represents that its current practice is to track pending unresolved customer support inquiries and maintain records of customer correspondence and contacts, including failures of customer service to respond to inquiries.
21. Respondent represents that its Customer Experience team uses several internal data dashboards to monitor customer support-related metrics. Senior management, including the Vice President of Operations Shared Services (who oversees customer support), and Robinhood Market, Inc.'s Chief Brokerage Officer, is kept apprised of these metrics on a regular basis as well as on an ad hoc basis.

IV. UNDERTAKINGS BY RESPONDENT

22. Respondent will maintain reasonable and effective policies and procedures governing the supervision of its customer support function, including but not limited to, accurate disclosures to customers regarding available customer support. As part of its customer support supervision, regular, appropriate and timely reports shall be made to the Vice President of Customer Experience, who is also a member of Respondent's Board of Managers.
23. Respondent will maintain records of customer complaints and correspondence, including complaints and correspondence concerning the failure of customer service response to inquiries, in accordance with all applicable regulatory requirements.
24. To the extent that it has not already done so, Respondent shall establish additional reimbursement policies or procedures for evaluating whether retail customers have suffered losses related to deficiencies in the supervision of customer support or from other system issues or from the deficiencies laid out in the FINRA AWC. Respondent represents that it is not aware of any customers impacted by the underlying deficiencies in the FINRA AWC who have not already been evaluated for remediation.
25. Respondent acknowledges that, within two years following the date the first participating state settlement order is executed, state securities regulators may, at Respondent's expense, send a multistate team to examine and review compliance with the Order, which review may include, without limitation, reviewing and evaluating the effectiveness of Respondent's remediation practices and overall supervision of customer support; and evaluating and addressing the accuracy and timeliness of Respondent's communications and disclosures to customers regarding the level of support that they can expect to receive. This multistate examination is a part of the state regulators' authority to require the production of books and

records, audit, examinations, and review, and should not be interpreted to limit this authority in any way.

V. CONCLUSIONS OF LAW

The Commissioner finds that sufficient grounds would exist to initiate enforcement proceedings against Respondent under Sections 36b-15 and 36b-27 of the Act, based on the following, all of which are more fully described above, after granting Respondent an opportunity for a hearing:

1. It is a violation of Section 36b-31-6f(b) of the Regulations for a registered broker-dealer to fail to establish, enforce and maintain a system for supervising the activities of its agents that is reasonably designed to achieve compliance with applicable securities laws and regulations.
2. By failing to maintain adequate oversight of its trading technology resulting in significant platform outages during times of historic market volatility, as well as significant periodic outages, Respondent harmed its Connecticut customers. Respondent's failure to implement and maintain adequate supervisory systems for its technology violated Section 36b-31-6f(b) of the Regulations.
3. While experiencing platform outages, Respondent failed to maintain an adequate customer response system. Therefore, Respondent violated Section 36b-31-6f(b) of the Regulations.
4. Respondent failed to maintain and implement adequate supervisory systems for its technology and failed to exercise due diligence in ascertaining essential facts about Connecticut customers' qualifications for options and margin trading. Robinhood also negligently misrepresented risks associated with multi-leg spread options. Therefore, Respondent engaged in conduct proscribed by Section 36b-31-6f(b) of the Regulations.
5. By failing to report "tens of thousands" of complaints to FINRA, Respondent violated Section 36b-31-6f(b) of the Regulations by failing to establish, maintain, and enforce adequate written supervisory procedures.
6. By failing to provide reasonable customer support, Respondent failed to maintain and implement adequate supervisory systems addressing its customer support. Therefore, Respondent violated Section 36b-31-6f(b) of the Regulations.
7. Respondent's engaging in conduct proscribed by Section 36b-31-6f(b) of the Regulations forms the basis for the initiation of administrative proceedings against Respondent under Sections 36b-15(a)(2)(K), 36b-27(a) and 36b-27(d) of the Act.

V. CONSENT ORDER

On the basis of the Findings of Fact, Conclusions of Law, and the consent of the Respondent to the entry of this Consent Order,

IT IS HEREBY ORDERED THAT:

1. Respondent shall **CEASE AND DESIST** from engaging, directly or indirectly, in conduct constituting or which would constitute a violation of Section 36b-31-6f(b) of the Regulations, as described herein. Nothing in this Consent Order shall be construed to limit the authority of the Commissioner to take future enforcement action against Respondent based on matters not resolved herein should Respondent violate the Act or any regulation or order under the Act;

2. No later than the date the Commissioner enters this Consent Order, Respondent shall pay to the “Treasurer, State of Connecticut”, by certified bank check or by Automated Clearing House (ACH) electronic funds transfer, the sum of two hundred thousand dollars (\$200,000) as an administrative fine;
3. If any state securities regulator determines not to accept the settlement offer of Respondent reflected herein, the monetary payments to Connecticut hereunder shall not be affected, and Respondent shall not be relieved of any of the non-monetary provisions of this Consent Order.
4. This Order concludes the investigation by the Commissioner and resolves any other action that the Commissioner could commence under the Act as it relates to the Findings of Fact and Conclusions of Law herein; provided, however, that excluded from and not covered by this paragraph are any claims by the Commissioner arising from or relating to enforcement of the terms and conditions of this Consent Order, including Respondent’s obligation to comply with the undertakings contained herein. Nothing herein shall be construed as limiting the Commissioner’s ability to investigate Respondent for violations not resolved herein or to respond to and address any consumer complaints made with respect to Respondent.
5. This Consent Order shall be binding upon Respondent and its successors and assigns, as well as to successors and assigns of relevant affiliates, with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.
6. This Consent Order is entered into solely for the purpose of resolving the referenced multi-state securities investigation and is not intended to be used for any other purpose. Other than the obligations and provisions set forth herein, this Consent Order does not limit or create liability for Respondent nor limit or create defenses for Respondent to any claims, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.
7. Nothing in this Consent Order shall be construed to create, waive, release, or limit any private right of action, including any claims retail customers have or may have on an individual or class basis under state or federal laws against any person or entity.
8. This Consent Order shall not, (a) form the basis for any disqualifications from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of any state, or for any disqualification from relying upon the securities registration exemptions or safe harbor provisions to which Respondent or any of its affiliates may be subject under the laws, rules, and regulations of the affected states, (b) form the basis for any disqualifications under the laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities regulator of self-regulatory organizations; or under the federal securities laws, including but not limited to, § 3(a)(39) of the Securities Exchange Act of 1934, Rule 262 of Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF, (c) form the basis for disqualification under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuance in membership.
9. Except in an action by the Commissioner to enforce the obligations in this Consent Order, this Consent Order is not intended to be deemed or used as (a) an admission of, or evidence of, the

validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an admission of, or evidence of, any such alleged fault or omission of Respondent in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or other tribunal.

10. This Consent Order is not intended to state or imply a finding of willful, reckless, or fraudulent conduct by Respondent, or its affiliates, directors, officers, employees, associated persons, or agents.
11. This Consent Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of the State of Connecticut without regard to any choice of law principles.

NOW THEREFORE, the Commissioner enters the following:

1. The Findings of Fact, Conclusions of Law and Consent Order set forth above, be and are hereby entered;
2. Entry of this Consent Order by the Commissioner is without prejudice to the right of the Commissioner to take enforcement action against Respondent based upon a violation of this Consent Order if the Commissioner determines that compliance with the terms herein is not being observed or if any representation or undertaking made by Respondent and reflected herein is subsequently determined to be untrue; and
3. This Consent Order shall become final when entered.

So ordered at Hartford, Connecticut
this 10th day of August 2023.

_____/s/_____
Jorge L. Perez
Banking Commissioner

