



STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE

IN THE MATTER OF:)
)
ROBINHOOD FINANCIAL LLC,)
CRD# 165998,) Case No.: AP-23-05
)
Respondent.)

CONSENT ORDER

1. State securities regulators, as members of the North American Securities Administrators Association (“NASAA”), formed a multistate task force to coordinate an investigation into Respondent’s management activities with respect to the retail market including platform outages, deficiencies in supervision of options and margin trading eligibility and approval processes, deficiencies relating to Respondent’s operational structure for controls, customer service, and relating to significant operational issues during the period of approximately October 01, 2019 to March 31, 2021 (“**Relevant Period**”).
2. The Enforcement Section of the Missouri Securities Division of the Office of Secretary of State (“**Enforcement Section**”), through Senior Enforcement Counsel Melissa D. Buchanan, alleges that during the Relevant Period, Respondent engaged in activities that constitute violations of the Missouri Securities Act of 2003, Chapter 409, et seq. (“**the Act**”).¹
3. Respondent and the Enforcement Section desire to settle the matter raised by the Enforcement Section relating to alleged violations of 15 CSR 30-51.171(2)(A).

CONSENT TO JURISDICTION

4. Respondent and the Enforcement Section stipulate and agree that the Missouri Commissioner of Securities (“**Commissioner**”) has jurisdiction over Respondent and this matter pursuant to the Act.
5. Respondent and the Enforcement Section stipulate and agree that the Commissioner has authority to enter this Order pursuant to Section 409.6-604(h), RSMo., which provides:

¹ Unless otherwise indicated, all statutory citations refer to the 2016 edition of the Revised Statutes of Missouri, updated by the 2022 Cumulative Supplement.

“The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act.”

WAIVER AND EXCEPTION

6. Respondent waives any right to a hearing with respect to this matter.
7. Respondent waives any rights that it may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Respondent specifically forever releases and holds harmless the Missouri Office of the Secretary of State, Secretary of State, Commissioner, and their respective representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter.
8. Respondent stipulates and agrees with the Enforcement Section that, should the facts contained herein prove to be materially false or incomplete, the Enforcement Section reserves the right to pursue any and all legal or administrative remedies at its disposal.
9. Respondent specifically and voluntarily waives any rights to claim that it is unable to pay, now or at any time hereafter, any debt for restitution, penalty or other amount imposed in this Order.

CONSENT TO COMMISSIONER’S ORDER

10. Respondent and the Enforcement Section stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
11. Respondent agrees that it is not the prevailing party in this action since the parties have reached a good faith settlement.
12. Respondent neither admits nor denies the Findings of Fact and Conclusions of Law made herein by the Enforcement Section or the Commissioner, but consents to entry of this Order by the Commissioner solely for the purpose of resolving the referenced multistate investigation and not for any other purpose.
13. Other than the obligations and provisions set forth herein, this Order does not limit or create liability for Respondent nor limit or create defenses for Respondent to any claims.
14. This Order and the order of any other State in any proceeding related to Respondent’s agreement to resolve the above-referenced multistate investigation (collectively, the “**Orders**”) 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 Robinhood or any of its affiliates may be subject under laws, rules, and regulations of the settling 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; or (c) form the basis for disqualification under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuances in membership.

15. This Order is not intended to subject any Covered Person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or commodities regulator or self-regulatory organization, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions. For the sole purpose of this paragraph 16, “Covered Persons” means Respondent, its parent, or any of its affiliates and their current or former officers, directors, employees, or other persons that could otherwise be disqualified as a result of the Orders.
16. This Order does not preclude Respondent from lawfully dealing with existing clientele.

THE COMMISSIONER’S FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

I. FINDINGS OF FACT

17. Robinhood Financial, LLC (“**Robinhood**”), is a registered broker-dealer with a principal place of business at 500 Colonial Center Parkway, Suite 100, Lake Mary, FL, 32746. Robinhood is listed in the Central Registration Depository System (“**CRD**”) with CRD number 165998 and has been registered in the State of Missouri since January 30, 2014.
18. Robinhood acquired approximately 70,969 new Missouri customers from October 1, 2019 to March 31, 2020, for a total customer count of approximately 227,412 as of March 31, 2020. From October 1, 2019 to March 31, 2020, Robinhood approved approximately 8,940 Missouri customers for options trading and approximately 1,028 Missouri customers for margin trading.

PLATFORM OUTAGES

19. In December 2014, Robinhood launched commission-free, self-directed trading through its mobile application to retail customers with no account minimums. Robinhood’s dramatic growth in customers strained the firm’s platform infrastructure and its ability to properly address customer needs. In March 2020, Robinhood’s mobile and website platform 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 sell orders and did not have the ability to take advantage of fluctuations in security prices. Thousands of customers nationwide contacted Robinhood in the three (3) months following the March 2020 outages concerning inability to execute transactions.
20. Since March 2020, Robinhood 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 agreed upon in the resulting Letter of Acceptance, Waiver, and Consent, dated June 22, 2021 (the “FINRA AWC”).

OPTIONS AND MARGIN APPROVAL

21. Robinhood provides two types of option accounts to its customers, “Level 2” and “Level 3”. The Level 2 account provides customers 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.
22. Robinhood provides customers the ability to maintain a margin account to borrow funds from Robinhood to execute transactions by utilizing the cash and securities in the customer’s account as collateral.
23. Robinhood 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 objectives. Robinhood relied upon an algorithm that nearly instantaneously approves or denies the customers’ option or margin trading application. Robinhood 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.
24. Robinhood’s automated account approval process allowed for customers that were denied option and margin trading to re-submit and be approved by utilizing different responses to the eligibility questions.
25. In April 2020, Robinhood began a monthly review of all option trading customers to identify and address inconsistencies with the information that was provided during the application process.
26. In May 2021, Robinhood began conducting a weekly inspection of its option customers to verify proper approval for those accounts was 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

27. The FINRA AWC cited numerous operational failures and 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; and*
- 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, 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

- 28. From July 1, 2018, through June 30, 2020, Robinhood did not establish, maintain, or enforce a reasonable supervisory system to provide customer support.

29. During the period of June 1, 2018, through June 30, 2020, Robinhood 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.
30. Robinhood'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. Robinhood sometimes utilized multiple customer support agents to respond to an ongoing ticket and the responses did not always fully address the customer's concerns. Robinhood's reliance on automated and bulk emails to resolve certain customer support inquiries did not always meet customers' individual needs and expectations. Robinhood should have been aware through its monitoring that some customers were not receiving adequate customer support.
31. In December 2020, Robinhood rolled out an option for phone support but continued to utilize email responses for a significant number of inquiries. Further, Robinhood failed to accurately project customer service representative headcount to adequately handle customer needs in 2020.
32. Robinhood did not provide customers clear and accurate disclosures concerning certain options and margin issues. Robinhood did not notify customers of long running errors involving certain account display information. Additionally, Robinhood did not provide customers realistic expectations around its customer support capabilities, telling customers that Robinhood would respond to email requests within 1-3 days, but this did not always occur.
33. To date, Robinhood has paid over \$87 million to compensate customers through settlements, including by 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.

REMEDICATION AND FURTHER UNDERTAKINGS

34. As part of the FINRA AWC, Robinhood engaged a third-party consultant to complete a comprehensive review of Robinhood's compliance with areas identified as deficient in the FINRA AWC, including Robinhood's procedures for option trading account approval, and recommended modifications or supplements to Robinhood's processes, controls, policies, systems, procedures, and training. Robinhood shall provide access to any non-privileged report, exhibits, documents, or subsequent reports generated from the third-party consultant's review. The Securities Division will treat the report as an investigatory record for purposes of applicable Public Record Law provisions, but shall at all times comply with Chapter 610 ("The Missouri Sunshine Law"). Robinhood shall provide the Securities Division with a written attestation that the firm 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.

35. Robinhood represents that it has done substantial work to enhance its customer service program since March 2020. Robinhood has substantially increased available customer service resources, including by hiring additional staff and expanding the avenues for customer support. The Customer Experience team 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.
36. In June 2021, Robinhood reorganized the customer support structure by support categories to optimize its customer support function. Support categories include 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). Only Robinhood licensed representatives staff the Advanced Brokerage and Core Brokerage groups.
37. Robinhood 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.
38. Robinhood 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. Robinhood's 24/7 voice customer support offers live phone support to customers 24 hours a day, 7 days a week. Customers can request phone support via a call-back option in the Robinhood app or website and will receive a notification when they are next in line for a call. Robinhood has an internal target of calling customers within 30 minutes of submission of their request.
39. In July 2022, Robinhood added 24/7 chat support for all customer support inquiries.
40. Robinhood represents that it currently tracks a number of metrics regarding customer response times and focuses on median response times 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, Robinhood 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.
41. Robinhood represents that its Customer Experience team uses several internal data dashboards to monitor customer support-related metrics. Senior management, including the 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.
42. Robinhood is not aware of any customers impacted by the underlying deficiencies in the

FINRA AWC who have not already been evaluated for remediation.

II. CONCLUSIONS OF LAW

43. **THE COMMISSIONER CONCLUDES** that Robinhood is a broker-dealer as defined in Section 409.1-102(4), RSMo.
44. **THE COMMISSIONER CONCLUDES** that Robinhood has been registered, pursuant to the Act, as a broker-dealer within the State of Missouri since January 30, 2014.
45. **THE COMMISSIONER CONCLUDES** that Robinhood failed to reasonably supervise its agents and employees in violation of 15 CSR 30-51.171(2)(A).
46. **THE COMMISSIONER CONCLUDES** that the violations above are sufficient to issue an order in accordance with Section 409.6-604, RSMo.
47. The Commissioner, after consideration of the stipulations set forth above and on consent of Respondent and the Enforcement Section, finds and concludes that the Commissioner has jurisdiction over Respondent in this matter and that the following order is in the public interest, necessary for the protection of public investors, and consistent with the purposes intended by Chapter 409.

III. ORDER

NOW, THEREFORE, it is hereby Ordered that:

48. Respondent shall 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 customer support supervision, regular, appropriate and timely reports shall be made to the Vice President of Customer Experience, who is also a member of Robinhood's Board of Managers;
49. Respondent shall maintain records of customer complaints and correspondence, including complaints and correspondence concerning failure of customer service response to inquiries, in accordance with all applicable regulatory requirements;
50. 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 identified by the FINRA AWC;
51. Respondent shall, within two (2) years of the date of the first executed Order, at Respondent's expense, allow a multistate team of state securities regulators to examine and review compliance with the Orders, at the regulators' discretion, which may include, but shall not be limited to (a) reviewing and evaluating the effectiveness of Robinhood's remediation practices and overall supervision of customer support; and (b) evaluating and addressing the accuracy and timeliness of Robinhood'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;

52. Respondent shall pay \$200,000 to the Missouri Secretary of State's Investor Education and Protection Fund via electronic payment. **If electronic payment is not made within thirty (30) days, additional interest shall accrue at a rate of eight percent pursuant to the mandatory interest requirement in Section 409.6-604, RSMo.;**
53. If Respondent fails to make payment within 60 days and/or fails to make payment in the amount agreed, all outstanding balances under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commissioner without further application to the Commissioner;
54. This Order shall be binding upon Respondent, its parent and/or affiliates, and their respective successors and assigns with respect to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions;
55. Respondent is hereby ordered to desist and refrain from further violations of 15 CSR 30-51.171(2)(A) as described herein. Noncompliance with any of the terms and conditions in this Consent Order shall be a violation of an order of the Commissioner and a violation of the laws of the State of Missouri and may result in additional administrative action and the imposition of injunctive relief, sanctions, and additional penalties pursuant to applicable provisions of the CSL; and
56. Respondent shall pay its own costs and attorneys' fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 23 DAY OF JUNE, 2023.



JOHN R. ASHCROFT
SECRETARY OF STATE

A handwritten signature in black ink, appearing to read "John R. Ashcroft", written over a horizontal line.

DOUGLAS M. JACOBY
COMMISSIONER OF SECURITIES

Consented to by:

THE MISSOURI SECURITIES DIVISION

A handwritten signature in black ink, appearing to read "Melissa D. Buchanan", written over a horizontal line.

Melissa D. Buchanan
Senior Enforcement Counsel

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY ROBINHOOD

Robinhood hereby acknowledges that it has been served with a copy of this Administrative Order, has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

Robinhood admits the jurisdiction of the Missouri Securities Division, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the Missouri Securities Division as settlement of the issues contained in this Order.

Robinhood agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any administrative monetary penalty that Robinhood shall pay pursuant to this Order. Robinhood understands and acknowledges that these provisions are not intended to imply that would agree that any other amounts Robinhood shall pay pursuant to this Order may be reimbursed or indemnified (whether pursuant to an insurance policy or otherwise) under applicable law or may be the basis for any tax deduction or tax credit with regard to any state, federal or local tax.

Robinhood states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Jim Swartwout represents that he is President of Robinhood and that, as such, has been authorized by Robinhood to enter into this Order for and on behalf of Robinhood.

Dated this 23rd day of June, 2023.

Robinhood Financial LLC

By: DocuSigned by:
James Swartwout
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Title: President