



Securities Administrators Association (“NASAA”), with the Alabama Securities Commission (“ASC”) serving as the “Lead State”; and

WHEREAS, Robinhood has agreed to resolve the Investigation, upon the terms specified in the Settlement Term Sheet executed as of October 2022, between Robinhood and the Lead State on behalf of participating NASAA jurisdictions, with all participating states and territories identified in Appendix A to the Settlement Term Sheet (each, a “Jurisdiction” and collectively, the “Jurisdictions”); and

WHEREAS, Robinhood elects to waive permanently any right to a hearing and appeal under S.C. Code Ann. § 35-1-609, with respect to this Consent Order; and

WHEREAS, Robinhood admits the jurisdiction of the Securities Commissioner over the Respondent and the subject matter of this proceeding; and

WHEREAS, Robinhood, without admitting or denying the Findings of Fact and Conclusions of Law set forth below, consents to the entry of this Consent Order; and

WHEREAS, Robinhood agrees to comply in all material respects with the undertakings specified herein.

NOW, THEREFORE, the Securities Commissioner, as administrator of the Act, hereby enters this Consent Order:

## **II. JURISDICTION**

1. The Securities Commissioner has jurisdiction over this matter pursuant to S.C. Code Ann. § 35-1-601(a).

## **III. FINDINGS OF FACT**

2. From October 1, 2019, to March 31, 2020, Robinhood acquired approximately 68,667 new South Carolina customers, for a total South Carolina customer count of approximately

202,885 as of March 31, 2020. From October 1, 2019, to March 31, 2020, Robinhood approved approximately 8,192 South Carolina customers for option trading and approximately 921 South Carolina customers for margin trading.

**A. PLATFORM OUTAGES**

3. 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 sale orders and did not have the ability to take advantage of fluctuations in security prices. Thousands of customers nationwide contacted Robinhood in the three months following the March 2020 outages concerning inability to execute transactions.

4. Since March 2020, Robinhood has implemented

6. 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.

7. 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 objective. 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.

8. 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.

9. 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.

10. 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.

## C. OPERATIONAL COMPLIANCE

11. 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*



15. 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.

16. 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.

17. 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.

#### **IV. REMEDIATION AND FURTHER UNDERTAKINGS**

##### **A. THIRD-PARTY COMPLIANCE CONSULTANT**

18. 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 reports, exhibits, documents, or subsequent reports generated from the third-party consultant's review (collectively, the "Third-Party Consultant's Report"). The Division will treat the Third-Party Consultant's Report as an investigatory record for purposes of applicable Public Record Law provisions. Within

one-year of the settlement date, Robinhood shall provide the 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.

**B. REMEDIATION EFFORTS**

19. 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.

20. 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.

21. Robinhood represents that it now offers customers multiple methods to submit complaints, make inquiries and receive support, including email support, live voice support, and live 24/7 chat support.



## **Voice Support**

22. Robinhood launched its voice support program in December 2020 and gradually increased its availability. Beginning in 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. Beginning in September 2023, Robinhood offers live phone support for all inquiries to customers from 7:00 a.m. to 9:00 p.m. Eastern Time, 7 days a week. It is also available 24 hours

25. Robinhood 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.

**C. REMEDIAL UNDERTAKINGS**

26. Robinhood 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 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.

27. Robinhood will 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.

28. Robinhood has or will 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. Robinhood is not aware of any customers impacted by the underlying deficiencies in the FINRA AWC who have not already been evaluated for remediation.

**D. AUDITS AND INSPECTIONS**

29. Within two years of March 1, 2023, at Robinhood's expense, state securities regulators may send a multistate team to examine and review compliance with the Consent Order which may include, but are not 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.

30. 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**

31. Paragraphs 1 through 30 are incorporated by reference as though fully set forth herein.

32. Pursuant to S.C. Code Ann. § 35-1-412(d)(9), it is a violation of the Act for a

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35. By failing to maintain an adequate customer response system while experiencing platform outages, Robinhood failed to implement and maintain adequate supervisory systems. Therefore, Robinhood violated S.C. Code Ann. § 35-1-412(d)(9).

36. Robinhood failed to maintain and implement adequate supervisory systems to

Fact and Conclusions of Law herein, provided however, that excluded from and not covered by this paragraph are any claims by the Division arising from or relating to Robinhood's failure to comply with the undertakings and remedial measures contained herein in paragraphs 18-30, *supra*.

- b. This Consent Order is entered into solely for the purpose of resolving the referenced Investigation and is not intended to be used for any other purpose.
- c. Robinhood shall pay a civil penalty in the amount of \$200,000.00 to the Division.

Upon execution by the Securities Commissioner, this Consent Order resolves Matter Number 20203765 as to the Respondent. 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. The Division will not seek additional monetary penalties or remedies from Robinhood, relating to the specific failures and deficiencies identified by the Jurisdictions in the course of the Investigation.

Nothing herein shall be construed as limiting any Jurisdiction's ability to investigate Robinhood for violations not resolved herein or to respond to and address any consumer complaints made with respect to Robinhood.

Nothing herein shall be construed as having relieved, modified, or in any manner affected Robinhood's ongoing obligation to comply with all federal, state, or local statutes, rules, and regulations applicable to Robinhood. If, after this Consent Order is executed, Robinhood fails to comply with any of the terms set forth herein or any representation by Robinhood herein is

discovered to be incorrect or misleading in any manner, the Division may enforce this Consent Order and may reinstitute the actions and investigations referenced in this Consent Order. Any violations of this Consent Order, as issued, may constitute grounds for further sanctions against Robinhood for such violations.

This Consent Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of South Carolina without regard to any choice of law principles.

This Consent Order is not intended to state or imply willful, reckless, or fraudulent conduct by Robinhood, or its affiliates, directors, officers, employees, associated persons, or agents.

Robinhood, through its execution of this Consent Order, voluntarily waives its right to a hearing on this matter and to judicial review of this Consent Order under S.C. Code Ann. § 35-1-609.

Robinhood enters this Consent Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Division or any member, officer, employee, agent, or representative of .Tv2krpiew

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## **CONSENT TO ENTRY OF CONSENT ORDER BY ROBINHOOD**

Robinhood hereby acknowledges that it has been served with a copy of this Consent Order, has read the foregoing Consent 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 Securities Commissioner, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Consent Order; and consents to entry of this Consent Order by the Securities Commissioner as settlement of the issues contained in this Consent 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 Consent Order. Robinhood understands and acknowledges that these provisions are not intended to imply that the Division would agree that any other amounts Robinhood shall pay pursuant to this Consent 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 Consent Order and that it has entered into this Consent Order voluntarily.

TæccÁÓí||á } \*• represents that **[he/she]** is XÚ!Ó! [\^!æ\*^!æ} á!Ú!^•iá^} c!ÜPØ!æ} á!ÜPÙ of Robinhood and that, as such, has been authorized by Robinhood to enter into this Consent Order for and on behalf of Robinhood.

Dated this <sup>FH</sup> \_\_\_\_\_ day of Ö^&^ { à^!, 2023.

Robinhood Financial LLC

DocuSigned by:

By:

*Matt Billings*

Title: XÚ!Ó! [\^!æ\*^!æ} á!Ú!^•iá^} c!ÜPØ!æ} á!ÜPÙ