

1 STATE OF ALASKA
2 DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
3 DIVISION OF BANKING AND SECURITIES

4) **ORDER NO. 23-41-S**
5 IN THE MATTER OF:)
6) **ADMINISTRATIVE CONSENT ORDER**
7 ROBINHOOD FINANCIAL LLC,)
8)
9)
10 Respondent.)
11)
12)

13 WHEREAS, Robinhood Financial LLC (“Robinhood”), CRD #165998, is a registered
14 broker-dealer with a principal place of business at 500 Colonial Center Parkway, Suite 100,
15 Lake Mary, FL 32746, and has been registered in the state of Alaska since January 23, 2014;
16 and

17 WHEREAS, a coordinated investigation into Robinhood’s management of its activities
18 with respect to the retail market, including platform outages, deficiencies in supervision of
19 options and margin trading eligibility and approval processes, deficiencies relating to
20 Robinhood’s operational structure for controls, customer service, and relating to significant
21 operational issues during the period of approximately October 1, 2019, to March 2021 (the
22 “Investigation”) has been conducted by a multistate task force, coordinated among members
23 of the North American Securities Administrators Association (“NASAA”), with the
24 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

1 ability to take advantage of fluctuations in security prices. Thousands of customers
2 nationwide contacted Robinhood in the three months following the March 2020 outages
3 concerning inability to execute transactions.

4 4. Since March 2020, Robinhood has implemented changes to customer support
5 and functionality of the mobile platform, some pursuant to an investigation by the Financial
6 Industry Regulatory Authority (“FINRA”) and agreed upon in the resulting Letter of
7 Acceptance, Waiver, and Consent (“AWC”) dated June 22, 2021 (the “FINRA AWC”).

8 **OPTIONS and MARGIN APPROVAL**

9 5. Robinhood provides two types of option accounts to its customers, “Level 2”
10 and “Level 3.” The Level 2 account provides customers the ability to trade basic option
11 contracts, which include cash-secured put and covered call contracts. The Level 3 account
12 provides customers with the ability to participate in more advanced strategies, such as
13 option spreads.

14 6. Robinhood provides customers the ability to maintain a margin account to
15 borrow funds from Robinhood to execute transactions by utilizing the cash and securities in
16 the customer’s account as collateral.

17 7. Robinhood customers applied for option trading and margin trading through an
18 automated process that reviews information provided by the applicant such as account
19 equity, employment status, liquid net worth, income, risk tolerance, investment experience,
20 and investment objective. Robinhood relied upon an algorithm that nearly instantaneously
21 approves or denies the customers’ option or margin trading application. Robinhood did not
22 have any designated registered principals or other staff that manually assisted in the review
23 process for option and margin trading to verify each applicant’s self-reported information.

24 8. Robinhood’s automated account approval process allowed for customers that

1 were denied option and margin trading to re-submit and be approved by utilizing different
2 responses to the eligibility questions.

3 9. In April 2020, Robinhood began a monthly review of all option trading
4 customers to identify and address inconsistencies with the information that was provided
5 during the application process.

6 10. In May 2021, Robinhood began conducting a weekly inspection of its option
7 customers to verify proper approval for those accounts was achieved. The inspection
8 process included a process that identified accounts that did not fit the eligibility parameters
9 and those accounts were downgraded accordingly.

10 OPERATIONAL COMPLIANCE

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

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

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

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

11 **c. Failure to exercise due diligence before approving options accounts** – *“Since*
12 *Robinhood began offering option trading to customers in December 2017, the firm has*
13 *failed to exercise due diligence before approving customers to trade options. Although the*
14 *firm’s written supervisory procedures assign registered options principals the responsibility*
15 *of approving accounts for options trading, the firm, in practice, has relied on computer*
16 *algorithms-known at Robinhood as “option account approval bots”-with only limited*
17 *oversight by firm principals.”*

18 **d. Failure to report all customer complaints to FINRA** – *“Between January 2018*
19 *and December 2020, Robinhood failed to report to FINRA tens of thousands of customer*
20 *complaints that it was required to report under FINRA Rule 4530, including complaints that*
21 *Robinhood provided customers with false or misleading information and that customers*
22 *suffered losses as a result of the firm’s outages and systems failures.”*

23 **e. Robinhood negligently misrepresented the risks associated with Options spread**
24 **transactions and the actions the firm would take with those positions on its customers’**

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

7 CUSTOMER SUPPORT

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

10 13. During the period of June 1, 2018, through June 30, 2020, Robinhood was
11 experiencing substantial customer and revenue growth and towards the end of the period,
12 struggled to adequately support the volume of incoming customer inquiries. This was
13 particularly relevant following a number of firmwide platform outages.

14 14. Robinhood’s initial acknowledgments were, during the period, provided
15 through automated email responses. Subsequent responses, provided primarily through
16 email and chat, were sometimes delayed and not issue-responsive. Robinhood sometimes
17 utilized multiple customer support agents to respond to an ongoing ticket and the responses
18 did not always fully address the customer’s concerns. Robinhood’s reliance on automated
19 and bulk emails to resolve certain customer support inquiries did not always meet
20 customers’ individual needs and expectations. Robinhood should have been aware through
21 its monitoring that some customers were not receiving adequate customer support.

22 15. In December 2020, Robinhood rolled out an option for phone support but
23 continued to utilize email responses for a significant number of inquiries. Further,
24 Robinhood failed to accurately project customer service representative headcount to

1 adequately handle customer needs in 2020.

2 16. Robinhood did not provide customers clear and accurate disclosures
3 concerning certain options and margin issues. Robinhood did not notify customers of long-
4 running errors involving certain account display information. Additionally, Robinhood did
5 not provide customers realistic expectations around its customer support capabilities, telling
6 customers that Robinhood would respond to email requests within 1-3 days, but this did not
7 always occur.

8 17. To date, Robinhood has paid over \$87 million to compensate customers
9 through settlements, including by paying restitution as part of the FINRA AWC, by
10 contributing to a Fair Fund related to a settlement with the U.S. Securities and Exchange
11 Commission, and by settling a class action and other direct lawsuits.

12 CONCLUSIONS OF LAW

13 1. The Division is responsible for administering and enforcing the securities laws
14 of the State of Alaska and is authorized to investigate securities activities to determine
15 compliance with Alaska law and issue orders imposing civil penalties and remedial actions
16 pursuant to AS 45.56.690.

17 2. Pursuant to AS 45.56.440(d)(9), it is a violation of the Act for a broker dealer
18 firm to fail to establish and maintain a supervisory system that is reasonably designed to
19 achieve compliance with securities laws and regulations.

20 3. By failing to maintain adequate oversight of its trading technology resulting in
21 significant platform outages during times of historic market volatility, as well as significant
22 periodic outages, Robinhood harmed its Alaska customers. Robinhood's failure to implement
23 and maintain adequate supervisory systems for its technology violated AS 45.56.440(d)(9).

24 4. While experiencing platform outages, Robinhood failed to maintain an

1 **A. SETTLEMENT**

2 3. Robinhood shall pay a \$200,000.00 civil penalty to the Division.

3 4. In consideration of the settlement, the Division will conclude the investigation
4 and any civil or administrative actions that could be commenced pursuant to state securities
5 law for the specific violations resolved herein, solely as it relates to Robinhood. Nothing in
6 this Order shall be construed to create, waive, release, or limit any private right of action,
7 including any claims retail customers have or may have on an individual or class basis under
8 state or federal laws against any person or entity. The Division will not seek additional
9 monetary penalties or remedies from Robinhood, relating to the specific failures and
10 deficiencies identified by the jurisdictions in the course of this investigation and limited
11 exclusively to the specific violations identified in this Order.

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

15 6. Nothing herein shall be construed as having relieved, modified, or in any
16 manner affected Robinhood’s ongoing obligation to comply with all federal, state, or local
17 statutes, rules, and regulations applicable to Robinhood. If, after this Order is executed,
18 Robinhood fails to comply with any of the terms set forth herein or any representation by
19 Robinhood herein is discovered to be incorrect or misleading in any manner, a Jurisdiction
20 may enforce this Order and may reinstitute the actions and investigations referenced in the
21 Order. Any violations of the Order, as issued, may constitute grounds for further sanctions
22 against Robinhood for such violations.

23 **B. REMEDIATION AND FURTHER UNDERTAKINGS**

24 7. As part of the FINRA AWC, Robinhood engaged a third-party consultant to

1 complete a comprehensive review of Robinhood’s compliance with areas identified as
2 deficient in the FINRA AWC, including Robinhood’s procedures for option trading account
3 approval, and recommended modifications or supplements to Robinhood’s processes,
4 controls, policies, systems, procedures, and training. Robinhood shall provide access to any
5 non-privileged report, exhibits, documents, or subsequent reports generated from the third-
6 party consultant’s review. The Division will treat the report as an investigatory record for
7 purposes of applicable Public Record Law provisions. Robinhood shall provide the Division
8 with a written attestation that the firm fully complied with the independent third-party
9 consultant’s recommendations or has otherwise maintained measures as or more effective at
10 addressing the purpose of the recommendations within one-year of the settlement date.

11 8. Robinhood represents that it has done substantial work to enhance its customer
12 service program since March 2020. Robinhood has substantially increased available
13 customer service resources, including by hiring additional staff and expanding the avenues
14 for customer support. The Customer Experience team includes customer support agents,
15 operational leaders who oversee and manage customer support on a day-to-day basis,
16 quality control reviewers, and account security specialists.

17 9. In June 2021, Robinhood reorganized the customer support structure by
18 support categories to optimize its customer support function. Support categories include
19 Advanced Brokerage (options and margin); Core Brokerage (equities and ACATS);
20 Customer Safety and Privacy (account information, login issues, and security operations);
21 Accounts (onboarding, documents, taxes, data and charts, deactivation, referrals, and
22 usability); and Funding (withdrawals, deposits, and bank linking). Only Robinhood licensed
23 representatives staff the Advanced Brokerage and Core Brokerage groups.

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

4 **Voice Support**

5 11. Robinhood launched its voice support program in December 2020 and
6 gradually increased its availability. By October 2021, voice support was available 24/7 for
7 all customer support inquiries, including but not limited to inquiries regarding options,
8 potential account takeovers, account restrictions, equities, margin, withdrawals, cash
9 management, cybersecurity, fraud, bank-linking, and cryptocurrency. Robinhood's 24/7
10 voice customer support offers live phone support to customers 24 hours a day, 7 days a
11 week. Customers can request phone support via a call-back option in the Robinhood app or
12 website and will receive a notification when they are next in line for a call. Robinhood has
13 an internal target of calling customers within 30 minutes of submission of their request.

14 **Chat Support**

15 12. In July 2022, Robinhood added 24/7 chat support for all customer support
16 inquiries.

17 13. Robinhood represents that it currently tracks a number of metrics regarding
18 customer response times and focuses on median response time and a metric called "P85
19 response time," which is the time it takes to respond to 85% of support requests. Notably,
20 for customers requesting voice support, although not required by regulation, Robinhood has
21 consistently met its target of calling customers back within 30 minutes. Robinhood
22 represents that its current practice is to track pending unresolved customer support inquiries
23 and maintain records of customer correspondence and contacts, including failures of
24 customer service to respond to inquiries.

1 14. Robinhood represents that its Customer Experience team uses several internal
2 data dashboards to monitor customer support-related metrics. Senior management, including
3 the Vice President of Operations Shared Services (who oversees customer support), and
4 Robinhood Market, Inc.'s Chief Brokerage Officer, is kept apprised of these metrics on a
5 regular basis as well as on an ad hoc basis.

6 **Remedial Undertakings**

7 15. Robinhood will maintain reasonable and effective policies and procedures
8 governing the supervision of its customer support function, including but not limited to
9 accurate disclosures to customers regarding available customer support. As part of customer
10 support supervision, regular, appropriate, and timely reports shall be made to the Vice
11 President of Customer Experience, who is also a member of Robinhood's Board of
12 Managers.

13 16. Robinhood will maintain records of customer complaints and correspondence,
14 including complaints and correspondence concerning failure of customer service response to
15 inquiries, in accordance with all applicable regulatory requirements.

16 17. Robinhood has or will establish additional reimbursement policies or
17 procedures for evaluating whether retail customers have suffered losses related to
18 deficiencies in the supervision of customer support or from other system issues or from the
19 deficiencies laid out in the FINRA AWC. Robinhood is not aware of any customers
20 impacted by the underlying deficiencies in the FINRA AWC who have not already been
21 evaluated for remediation.

22 **C. AUDITS AND INSPECTIONS**

23 18. Within two years of the date of the first executed Order, at Robinhood's
24 expense, state securities regulators may send a multistate team to examine and review

1 compliance with the Order, which may include, but are not limited to:

2 a. Reviewing and evaluating the effectiveness of Robinhood's remediation
3 practices and overall supervision of customer support.

4 b. Evaluating and addressing the accuracy and timeliness of Robinhood's
5 communications and disclosures to customers regarding the level of support
6 that they can expect to receive.

7 19. This multistate examination is a part of the state regulators' authority to
8 require the production of books and records, audit, examinations, and review, and should
9 not be interpreted to limit this authority in any way.

10 **CONSTRUCTION AND DEFAULT**

11 20. This Order shall not, (a) form the basis for any disqualifications from
12 registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and
13 regulations of any state, or for any disqualification from relying upon the securities
14 registration exemptions or safe harbor provisions to which Robinhood or any of its affiliates
15 may be subject under the laws, rules, and regulations of the settling states, (b) form the basis
16 for any disqualifications under the laws of any state, the District of Columbia, Puerto Rico,
17 or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities
18 regulator of self-regulatory organizations; or under the federal securities laws, including but
19 not limited to, § 3(a)(39) of the Securities Exchange Act of 1934, Rule 262 of Regulation A
20 and Rules 504 and 506 of Regulation D under the Securities Act of 1933 and Rule 503 of
21 Regulation CF, (c) form the basis for disqualification under the FINRA rules prohibiting
22 continuance in membership or disqualification under other SRO rules prohibiting
23 continuance in membership.

24 21. Except in an action by the Division to enforce the obligations in this Order,

1 this Order is not intended to be deemed or used as (a) an admission of, or evidence of, the
2 validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b)
3 an admission of, or evidence of, any such alleged fault or omission of Robinhood in any
4 civil, criminal, arbitration, or administrative proceeding in any court, administrative agency,
5 or other tribunal.

6 22. This Order shall be binding upon Robinhood and its successors and assigns, as
7 well as to successors and assigns of relevant affiliates, with respect to all conduct subject to
8 the provisions above and all future obligations, responsibilities, undertakings, commitments,
9 limitations, restrictions, events, and conditions.

10 23. This Order and any dispute related thereto shall be construed and enforced in
11 accordance with, and governed by, the laws of Alaska without regard to any choice of law
12 principles.

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

16 25. Robinhood, through its execution of this Order, voluntarily waives their right
17 to a hearing on this matter and to judicial review of this Order under AS 45.56.740.

18 26. Robinhood enters this Order voluntarily and represents that no threats, offers,
19 promises, or inducements of any kind have been made by the Division or any member,

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1 officer, employee, agent, or representative of the Division to induce Robinhood to enter this
2 Order.

3 Dated this 10th day of July, 2023.

4 BY ORDER OF THE ALASKA DIVISION OF BANKING
5 AND SECURITIES

6 /s/ Robert H. Schmidt

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8 Administrator
9 Alaska Division of Banking and Securities
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