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3 **STATE OF WASHINGTON**
4 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
5 **SECURITIES DIVISION**

6 IN THE MATTER OF DETERMINING
7 Whether there has been a violation of the
8 Securities Act of Washington by:

9 Robinhood Financial LLC;

10 Respondent.

Order No.: S-21-3141-23-CO01

CONSENT ORDER

11 **INTRODUCTION**

12 Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department
13 of Financial Institutions (“Securities Division”) and Respondent Robinhood Financial LLC, do hereby enter
14 into this Consent Order in settlement of the matters alleged herein. Respondent Robinhood Financial LLC
15 neither admits nor denies the Findings of Fact and Conclusions of Law as stated below.

16 WHEREAS, Robinhood Financial LLC (“Robinhood”), CRD# 165998, is a registered broker-dealer
17 with a principal place of business at 500 Colonial Center Parkway, Suite 100, Lake Mary, FL 32746, and has
18 been registered in the state of Washington since January 2, 2014; and

19 State securities regulators, as members of the North American Securities Administrators Association
20 (“NASAA”), formed a multistate task force (the “Task Force”), with the Alabama Securities Commission
21 (“ASC”) serving as the “Lead State,” and conducted an investigation (the “Investigation”) into Robinhood’s
22 management of its activities with respect to the retail market including platform outages, deficiencies in

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supervision of options and margin trading eligibility and approval processes, deficiencies relating to Robinhood’s operational structure for controls, customer service and relating to significant operational issues during the period of approximately October 1, 2019 to March 2021; and

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

Robinhood agrees to comply in all material respects with the undertakings specified herein; and

Robinhood elects to permanently waive any right to a hearing and appeal under RCW 21.20.440 and Chapter 34.05 RCW with respect to the Administrative Consent Order (the “Order”).

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

FINDINGS OF FACT

Respondent

1. Robinhood Financial LLC, a Delaware Limited Liability Company formed on August 24, 2012, with its principal place of business in 500 Colonial Center Parkway, Suite 100, Lake Mary, FL 32746, is a financial services company that, through its mobile application, facilitates commission-free trades of stocks, exchange-traded funds and cryptocurrencies.

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

3. Robinhood acquired approximately 107,972 new Washington customers from October 1, 2019, to March 31, 2020, for a total customer count of approximately 377,233 as of March 31, 2020. From October 1, 2019, to March 31, 2020, Robinhood approved approximately 21,702 Washington customers for option trading and approximately 3,918 Washington customers for margin trading.

PLATFORM OUTAGES

4. 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.

5. 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

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2 (“FINRA”) and agreed upon in the resulting Letter of Acceptance, Waiver, and Consent (“AWC”) dated June
3 22, 2021 (the “FINRA AWC”).
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5 **OPTIONS and MARGIN APPROVAL**

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

10 7. Robinhood provides customers the ability to maintain a margin account to borrow funds from
11 Robinhood to execute transactions by utilizing the cash and securities in the customer’s account as collateral.

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

18 9. Robinhood’s automated account approval process allowed for customers that were denied
19 option and margin trading to re-submit and be approved by utilizing different responses to the eligibility
20 questions.

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

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

7 **OPERATIONAL COMPLIANCE**

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

11 a. **Failure to have a reasonably designed customer identification program** – *“From June*
12 *2016 to November 2018, Robinhood failed to establish or maintain a customer identification program that*
13 *was appropriate for the firm’s size and business. The firm approved more than 5.5 million new customer*
14 *accounts during that period, relying on a customer identification system that was largely automated and*
15 *suffered from flaws. For example, even though Robinhood received alerts flagging certain applications as*
16 *potentially fraudulent-including applications where the customer’s purported Social Security number*
17 *belonged to a person who was deceased-Robinhood’s customer identification system “overrode” those alerts*
18 *and approved the applications without any review. In all, Robinhood approved more than 90,000 accounts*
19 *from June 2016 to November 2018 that had been flagged for potential fraud without further manual review.”*
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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.”*

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2 individual needs and expectations. Robinhood should have been aware through its monitoring that some
3 customers were not receiving adequate customer support.

4 16. In December 2020, Robinhood rolled out an option for phone support but continued to utilize
5 email responses for a significant number of inquiries. Further, Robinhood failed to accurately project customer
6 service representative headcount to adequately handle customer needs in 2020.

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

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

16 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

17 **CONCLUSIONS OF LAW**

18 1. Robinhood is a broker-dealer as defined in RCW 21.20.005(1).

19 2. Pursuant to RCW 21.20.110(1)(j), a broker dealer firm must establish and maintain a
20 supervisory system that is reasonably designed to achieve compliance with securities laws and
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2 regulations.

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4 3. Pursuant to RCW 21.20.110(1)(j), a broker dealer firm must exercise due diligence when
5 ascertaining essential facts about a customer's financial situation and investment objectives in the
6 context of reviewing an application for options or margin trading.

7 4. By failing to maintain adequate oversight of its trading technology resulting in significant
8 platform outages during times of historic market volatility, as well as significant periodic outages,
9 Robinhood harmed its Washington customers. Robinhood's failure to implement and maintain
10 adequate supervisory systems is grounds for the imposition of a fine pursuant to RCW 21.20.110(1)(j).

11 5. While experiencing platform outages, Robinhood failed to maintain an adequate customer
12 response system as required by RCW 21.20.110(1)(j).

13 6. Robinhood failed to maintain and implement adequate supervisory systems for its
14 technology as required by RCW 21.20.110(1)(j).

15 7. Robinhood failed to exercise due diligence in ascertaining essential facts about Washington
16 customers' qualifications for options and margin trading as required by RCW 21.20.110(1)(j).

17 8. By negligently misrepresenting the risks associated with multi-leg spread options
18 Robinhood failed to maintain and implement adequate supervisory systems as required by RCW
19 21.20.110(1)(j).
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21 9. By failing to provide reasonable customer support, Robinhood failed to maintain and
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2 implement adequate supervisory systems over its customer support as required by RCW
3 21.20.110(1)(j).
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5 **ORDER**

6 On the basis of the Findings of Fact, Conclusions of Law, and Robinhood’s consent to entry of
7 this Order,

8 IT IS HEREBY ORDERED:

9 10. This Order concludes the investigation and any other action that the Securities Division
10 could commence under applicable law on behalf of the state of Washington as it relates to the substance
11 of the Findings of Fact and Conclusions of Law herein, provided however, that excluded from and not
12 covered by the paragraph 1 are any claims by the Securities Division arising from or relating to
13 Robinhood’s failure to comply with the undertakings contained herein.

14 11. This Order is entered into solely for the purpose of resolving the referenced investigation
15 and is not intended to be used for any other purpose.

16 **A. SETTLEMENT**

17 12. Robinhood shall pay \$200,000.00 in fines to the Securities Division prior to entry of this
18 Consent Order.

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

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

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

17 16. Payment will be made ACH transfer, made payable to "Washington State Treasurer." Each
18 payment must be accompanied by a remittance form, which will be provided by the Securities Division to
19 Robinhood.

20 **B. REMEDIATION AND FURTHER UNDERTAKINGS**

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

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

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

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

6 **Voice Support**

7 21. Robinhood launched its voice support program in December 2020 and gradually increased
8 its availability. Beginning in October 2021, voice support was available 24/7 for all customer support
9 inquiries, including but not limited to inquiries regarding options, potential account takeovers, account
10 restrictions, equities, margin, withdrawals, cash management, cybersecurity, fraud, bank-linking, and
11 cryptocurrency. Beginning in September 2023, Robinhood offers live phone support for all inquiries to
12 customers from 7:00 a.m. to 9:00 p.m. Eastern Time, 7 days a week. It is also available 24 hours a day, 7
13 days a week in more limited use cases. Customers can request phone support from 7:00 a.m. to 9:00 p.m.
14 Eastern Time via a call-back option in the Robinhood app or website and will receive a notification when
15 they are next in line for a call. Robinhood has an internal target of calling customers within 30 minutes of
16 submission of their request.

17 **Chat Support**

18 22. In July 2022, Robinhood added 24/7 chat support for all customer support inquiries.

19 **Customer Support Metrics**

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

8
9 24. Robinhood represents that its Customer Experience team uses several internal data
10 dashboards to monitor customer support-related metrics. Senior management, including the Vice President
11 of Operations Shared Services (who oversees customer support), and Robinhood Market, Inc.'s Chief
12 Brokerage Officer, is kept apprised of these metrics on a regular basis as well as on an ad hoc basis.

13 **Remedial Undertakings**

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

19 26. Robinhood will maintain records of customer complaints and correspondence, including
20 complaints and correspondence concerning failure of customer service response to inquiries, in accordance
21 with all applicable regulatory requirements.

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2 broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of any state, or for any
3 disqualification from relying upon the securities registration exemptions or safe harbor provisions to which
4 Robinhood or any of its affiliates may be subject under the laws, rules, and regulations of the settling states,
5 (b) form the basis for any disqualifications under the laws of any state, the District of Columbia, Puerto
6 Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities regulator
7 of self-regulatory organizations; or under the federal securities laws, including but not limited to, § 3(a)(39)
8 of the Securities Exchange Act of 1934, Rule 262 of Regulation A and Rules 504 and 506 of Regulation D
9 under the Securities Act of 1933 and Rule 503 of Regulation CF, (c) form the basis for disqualification
10 under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules
11 prohibiting continuance in membership.

12 31. Except in an action by the Securities Division to enforce the obligations in this Order, this
13 Order is not intended to be deemed or used as (a) an admission of, or evidence of, the validity of any alleged
14 wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an admission of, or evidence of, any
15 such alleged fault or omission of Robinhood in any civil, criminal, arbitration, or administrative proceeding
16 in any court, administrative agency, or other tribunal.

17 32. This Order shall be binding upon Robinhood and its successors and assigns, as well as to
18 successors and assigns of relevant affiliates, with respect to all conduct subject to the provisions above and
19 all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and
20 conditions.

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

34. This 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.

35. Robinhood, through its execution of this Order, voluntarily waives their right to a hearing on this matter and to judicial review of this Order under RCW 21.20.440 and Chapter 34.05 RCW.

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

SIGNED and ENTERED this 30th day of January 2024.



/s/
William M. Beatty
Securities Administrator

Approved by:

Presented by:

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/s/ _____
Brian Guerard
Chief of Enforcement

/s/ _____
Keenan Osborne
Financial Legal Examiner

Reviewed by:

/s/ _____
Holly Mack-Kretzler
Financial Legal Examiner Supervisor

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Robinhood Financial LLC
By: Matt Billings /s/ Title: VP Brokerage and
President RHF and RHS

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