STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCIAL REGULATION

In the Matter of ROBINHOOD FINANCIAL LLC, Respondent.	Case No. S-23-0025 FINAL ORDER ASSESSING CIVIL PENALTY AND CONSENT TO ENTRY OF ORDER

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

WHEREAS, a coordinated investigation into Robinhood's management of its 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 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 (the "Investigation") has been conducted by a multistate task force, coordinated among members of the North American 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 agrees to comply in all material respects with the

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undertakings specified herein; and

WHEREAS, Robinhood elects to permanently waive any right to a hearing and appeal under Oregon Revised Statutes ("ORS") 59.295, ORS 59.305, ORS 183.415, and ORS 183.480 with respect to the Administrative Consent Order (the "Order").

NOW, THEREFORE, the Director of the Department of Consumer and Business Services, ("Director") as administrator of the Oregon Securities Law ("the Act"), hereby enters this Order:

FINDINGS OF FACT

1. Robinhood admits the jurisdiction of the Director, 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 Director.

2. Robinhood acquired approximately 49,899 new Oregon customers from October 1, 2019, to March 31, 2020, for a total customer count of approximately 167,848 as of March 31, 2020. From October 1, 2019, to March 31, 2020, Robinhood approved approximately 7,804 Oregon customers for option trading and approximately 1,091 Oregon customers for margin trading.

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

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inability to execute transactions.

4. 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 ("AWC") dated June 22, 2021 (the "FINRA AWC").

OPTIONS and MARGIN APPROVAL

5. 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.

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

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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.

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)-*

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which is not a FINRA member firm-without broker-dealer oversight. Robinhood experienced a series of outages and critical system failures between 2018 and late 2020, which, in turn, prevented Robinhood from providing its customers with basic broker-dealer services, such as order entry and execution."

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

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

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

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CUSTOMER SUPPORT

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

13. 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.

14. 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.

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

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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.

CONCLUSIONS OF LAW

1. The Director is responsible for administering and enforcing the securities laws of the State of Oregon and is authorized to investigate securities activities to determine compliance with Oregon law and issue orders imposing civil penalties and remedial actions pursuant to ORS 59.235, ORS 59.245, ORS 59.295, ORS 59.995, and ORS chapter 183.

2. Pursuant to ORS 59.205(13) and Oregon Administrative Rule ("OAR") 441-205-0210(1), it is a violation of the Act for a broker dealer firm to fail to establish and maintain a supervisory system that is reasonably designed to achieve compliance with securities laws and regulations.

3. Pursuant to ORS 59.205(13), it is a violation of the Act for a broker dealer firm to fail to exercise due diligence when ascertaining essential facts about a customer's financial situation and investment objectives in the context of reviewing an application for options or margin trading.

4. By failing to maintain adequate oversight of its trading technology resulting in significant platform outages during times of historic market volatility, as well as significant periodic outages, Robinhood harmed its Oregon customers. Robinhood's failure to implement and maintain adequate supervisory systems for its technology violated ORS 59.205(13) and OAR 441-205-0210(1).

5. While experiencing platform outages, Robinhood failed to maintain an adequate customer response system. Therefore, Robinhood violated OAR 441-205-0210(3)(g).

6. Robinhood failed to maintain and implement adequate supervisory systems for its technology and failed to exercise due diligence in ascertaining essential facts about

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Oregon customers, qualifications for options and margin trading. Robinhood also negligently misrepresented risks associated with multi-leg spread options. Therefore, Robinhood violated ORS 59.205(13).

7. By failing to report "tens of thousands" of complaints to FINRA, Robinhood violated OAR 441-205-0210(3)(g), that requires every dealer to establish, maintain, and enforce written procedures to set forth the prompt review and written approval of the handling of customer complaints.

8. By failing to provide reasonable customer support, Robinhood failed to maintain and implement adequate supervisory systems over its customer support. Therefore, Robinhood violated ORS 59.205(13) and OAR 441-205-0210(1).

ORDER

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

IT IS HEREBY ORDERED:

1. This Order concludes the investigation and any other action that the Director could commence under applicable law on behalf of Oregon as it relates to the substance of the Findings of Fact and Conclusions of Law herein, provided however, that excluded from and not covered by the paragraph 1 are any claims by the Director arising from or relating to Robinhood's failure to comply with the undertakings contained herein.

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

A. SETTLEMENT

3. Robinhood shall pay $200,000.00 as follows:

$200,000.00 civil penalty to the General Fund of the Oregon State Treasury.

4. In consideration of the settlement, the Director will conclude the investigation and any civil or administrative actions that could be commenced by the Director pursuant

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to state securities law for the specific violations resolved herein, solely as it relates to Robinhood. Nothing in this 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 Director 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 this investigation and limited exclusively to the specific violations identified in this Order.

5. 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.

6. 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 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, a Jurisdiction may enforce this Order and may reinstitute the actions and investigations referenced in the Order. Any violations of the Order, as issued, may constitute grounds for further sanctions against Robinhood for such violations.

B. REMEDIATION AND FURTHER UNDERTAKINGS

7. 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 Director will treat the report as an

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investigatory record for purposes of applicable Public Record Law provisions. Robinhood shall provide the Director 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.

8. 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.

9. 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.

10. 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.

Voice Support

11. 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

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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.

Chat Support

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

Customer Support Metrics

13. Robinhood represents that it currently tracks a number of metrics regarding customer response times and focuses on median response time and a metric called "P85 response time," which is the time it takes to respond to 85% of support requests. Notably, for customers requesting voice support, although not required by regulation, 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.

14. 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.

Remedial Undertakings

15. 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

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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.

16. 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.

17. 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.

C. AUDITS AND INSPECTIONS

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

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.

19. 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.

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CONSTRUCTION AND DEFAULT

20. This Order shall not, (a) form the basis for any disqualifications from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of any state, or for any disqualification from relying upon the securities registration exemptions or safe harbor provisions to which Robinhood or any of its affiliates may be subject under the 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, (c) form the basis for disqualification under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuance in membership.

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

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

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

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principles.

24. 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.

25. 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 ORS 59.295, ORS 59.305, ORS 183.415, and ORS 183.480.

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

FINAL ORDER

27. This Order is a "Final Order" under ORS 183.310(6)(b). Subject to that provision, entry of this Order in no way limits or prevents further remedies, sanctions, or actions which may be available to the Director under Oregon law to enforce this Order, for violations of this Order, for conduct or actions of Respondent that are not covered by this Order, or against any party not covered by this Order.

IT IS SO ORDERED

Dated this 29th day of August, 2023.

ANDREW R STOLFI, Director
Department of Consumer and Business Services

/s/ Dorothy Bean
Dorothy Bean, Chief of Enforcement
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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 Director, 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 Director 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 Director 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.

Walter J. Koller represents that **[he/she]** 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 11th day of July, 2023.

Robinhood Financial LLC

By: /s/ Walter J. Koller

Title: President

State of: New York
County of: New York

Signed before me this 11th of July, 2023
/s/ Anthony J Cavallaro
Notary Public

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