Securities Regulation Daily Wrap Up, BROKER-DEALERS—'No commission' pioneer Robinhood $1.25M poorer after best execution violations, (Dec. 19, 2019)

Securities Regulation Daily Wrap Up

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Robinhood Financial must pay FINRA a $1.25 million fine for not reasonably considering execution quality before routing trades to brokers who paid for the order flow.

FINRA has fined Robinhood Financial, LLC $1.25 million for best execution violations related to its customers' equity orders and related supervisory failures. Without admitting or denying FINRA's charges, Robinhood consented to a settlement finding that the California-based broker-dealer routed its customers' equity orders to four broker-dealers, all of which paid Robinhood Financial for that order flow, but did not reasonably consider the execution quality factors that the firm could have obtained from alternative markets (*In re Robinhood Financial, LLC*, No. 2017056224001, December 19, 2019).

Founded in 2013 in Palo Alto by Stanford University graduates Vladimir Tenev and Baiju Bhatt, Robinhood describes itself as a "pioneer" of no-commission investing. Employing 116 registered persons, according to FINRA, Robinhood provides commission-free trading to retail customers when using the firm's online mobile trading application or website to submit orders to trade in U.S. listed and over-the-counter securities. "We're on a mission to democratize our financial system," states language on the "About Us" page on Robinhood's website.

FINRA found, however, that from October 2016 to November 2017, Robinhood routed its non-directed equity orders to four broker-dealers, including its clearing broker, without reasonably considering the best execution factors set forth under FINRA Rule 5310. Instead, the materials of Robinhood's Best Execution Committee focused only on the execution quality of its four pre-existing routing destinations, all of which paid Robinhood for that order flow, without considering the execution quality of other execution venues. Moreover, hundreds of thousands of orders each month fell outside the firm's review process for several order types, such as nonmarketable limit orders, stop orders, and orders received outside of regular trading hours.

In addition, FINRA alleged, Robinhood's supervisory system was deficient because the firm's written supervisory procedures concerning best execution merely recited regulatory requirements but provided no description of the supervisory system or guidance as to how the firm should achieve compliance. The written supervisory procedures were also inaccurate because they indicated that Robinhood relied on "regular and rigorous" reviews conducted by the firms to which Robinhood routed orders, even though Robinhood had discontinued this practice prior to the period under review.

In addition to the $1.25 million fine, Robinhood agreed to retain an independent consultant to conduct a comprehensive review of the firm's systems and procedures related to best execution.

"Best execution of customer orders is a key investor protection requirement," said Jessica Hopper, Senior Vice President and Acting Head of FINRA's Department of Enforcement in a news release. The release notes that FINRA had included best execution as a topic in its 2019 letter concerning examination priorities.

The Letter of Acceptance, Waiver and Consent is No. 2017056224001.

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